



## THE ECONOMIC BENEFITS OF IMMIGRATION

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### EXECUTIVE SUMMARY

America's economic growth is hovering around 2 percent, public debt is \$16 trillion and rising, and job creation and labor market participation remain low. Embracing a more flexible legal immigration system can dramatically improve this situation. This paper describes the link between economic growth and immigration, the need for policy change, the misguided history of America's political opposition to immigration, and a rational immigration policy.

Immigrants increase economic efficiency by reducing labor shortages in low- and high-skilled markets because their educational backgrounds fill holes in the native-born labor market. However, the share of immigrants in the U.S. workforce has declined since its 1991 peak. Increased immigration would expand the American work-force, and encourage more business start-ups. Businesses ranging from Apple Corporation to apple growers would be able to find the workers they need in America.

Current law has inhibited such positive developments.

H-1B temporary visas for new skilled immigrant workers, limited at 85,000 annually, do not meet demand. This quota represents

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just over one twentieth of one percent of the overall labor force. Acquiring permanent residency (a “green card”) is a lengthy and potentially costly process. When immigrant talent, such as the 51 percent of engineering doctorate earners and the 41 percent of physical sciences doctorate earners who are foreign-born, are forced to leave the United States, private and taxpayer investment in research loses value.

Such limitations have been the result of opposition, based largely on false premises, to more open immigration.

Opposition to immigration is as old as immigration itself. American anti-immigrant groups have long feared the possibility that immigrants drive native-born workers out of jobs. However, this occurs only in the negligible proportion of occupations where native-born and immigrant skill sets overlap. Many economists have shown that immigration increases the wages of native-born Americans.

A growth-oriented immigration policy would allow a greater number of immigrants to legally enter, stay, and work in the United States. Arlene Holen, using Congressional Budget Office methodology, has estimated that if no green card or H-1B visa constraints had existed in the period 2003–07, an additional 182,000 foreign graduates in science and technology fields would have remained in the U.S. Their contribution to GDP would have been \$14 billion in 2008, including \$2.7 to \$3.6 billion in tax payments. Three hundred thousand H-1B visa holders would also have remained in the U.S. labor force, earning \$23 billion in 2008 and generating \$34 - \$47 billion in tax revenue over the next decade.

An immigration policy focused on increasing economic growth would seek ways to admit more immigrants with the advanced education levels desired by domestic employers. One approach to increasing legal immigration in a growth-oriented way, suggested by economists Pia Orrenius and Madeline Zavodny, is to auction permits to employers with demand-based minimum prices. This would

raise public revenues while creating a market for permits and guaranteeing that immigrants would arrive with employment. Differing prices could be charged for workers with particular skill sets, given demand. Initial revenues could be as much as \$6 billion, which could be invested in services that immigrants use.

Such policy innovations would require, as well, resolution of the status of the estimated 11 million undocumented “illegal immigrants” now living and (generally) working in the U.S. The Brookings-Duke Institute Roundtable has suggested that a solution to the problem of undocumented immigrants would begin with the establishment of a workplace verification system, proven to be effective, which allows employers to know promptly whether a potential employee has the right to work in the United States. This would be followed by a series of steps toward legalization—including payment of back taxes, a mandatory fine, employment and background checks, and a citizenship-type test for those wanting to remain in America. These steps were the basis of the 2005 and 2007 McCain-Kennedy comprehensive immigration proposals, and form the core of the Senate bipartisan agreement announced in January. Provisional visas and a path to permanent residency and citizenship could be provided for immigrants without criminal records, provided all requirements are completed.

Immigration benefits the economy, and America must adopt more flexible immigration policies that spur growth.

## INTRODUCTION

America’s growth is stalled at around 2 percent. The federal budget deficit has exceeded \$1 trillion for four years in a row, and the public debt stands at \$16 trillion. The economy has created only 460,000 net new jobs over the past four years. The labor force participation rate is at 1981 levels, before the Reagan Revolution and the entry during the 1980s of 12 million women to the workforce.

The most important task before the 113<sup>th</sup> Congress is to increase economic growth. Immigration reform is an immediate and powerful way to do that. President Obama has stated that immigration reform will be a priority of his second term, and a bipartisan group of senators has endorsed a comprehensive immigration proposal. America should facilitate the process of obtaining high- and low-skill legal workers in the United States. We are turning away qualified workers at a time when we are concerned about our international competitiveness.

To help move our economy forward, we must embrace a more flexible system that allows more potential workers to enter the country legally. This will benefit native-born Americans, who will see broader job opportunities.

Only 13 percent of green cards authorizing permanent residence—and a path to citizenship—are granted for employment purposes.<sup>1</sup> For many immigrants, such as those from India, the wait for American green cards can stretch for several decades. Since green cards bring in few workers, most skilled workers use temporary visas. More work visas are also needed for unskilled workers, for whom there are very few alternatives to legal immigration.

U.S. businesses founded by immigrants employed approximately 560,000 workers and generated \$63 billion in sales during 2012, according to an October 2012 Kauffman Foundation study. Immigrants have a higher propensity to start businesses than native-born Americans. For example, 44 percent of high-tech Silicon Valley businesses had at least one immigrant founder.

America needs to make a rational attempt at crafting a better immigration policy, one that accounts for the financial costs of immigration and allows immigrants to enter and leave depending on economic conditions. Recently several economists, such as Pia Orrenius of the Dallas Federal Reserve and University of Chicago Nobel prize winner Gary Becker, have proposed auctioning off work permits to employers or visas to

individuals. This would raise funds that could be used to reduce the deficit. In addition, such funds could be distributed to those parts of the country, such as California and Arizona, to offset costs of security and educating immigrants' children.

## AMERICAN ECONOMIC GROWTH IS LINKED TO IMMIGRATION

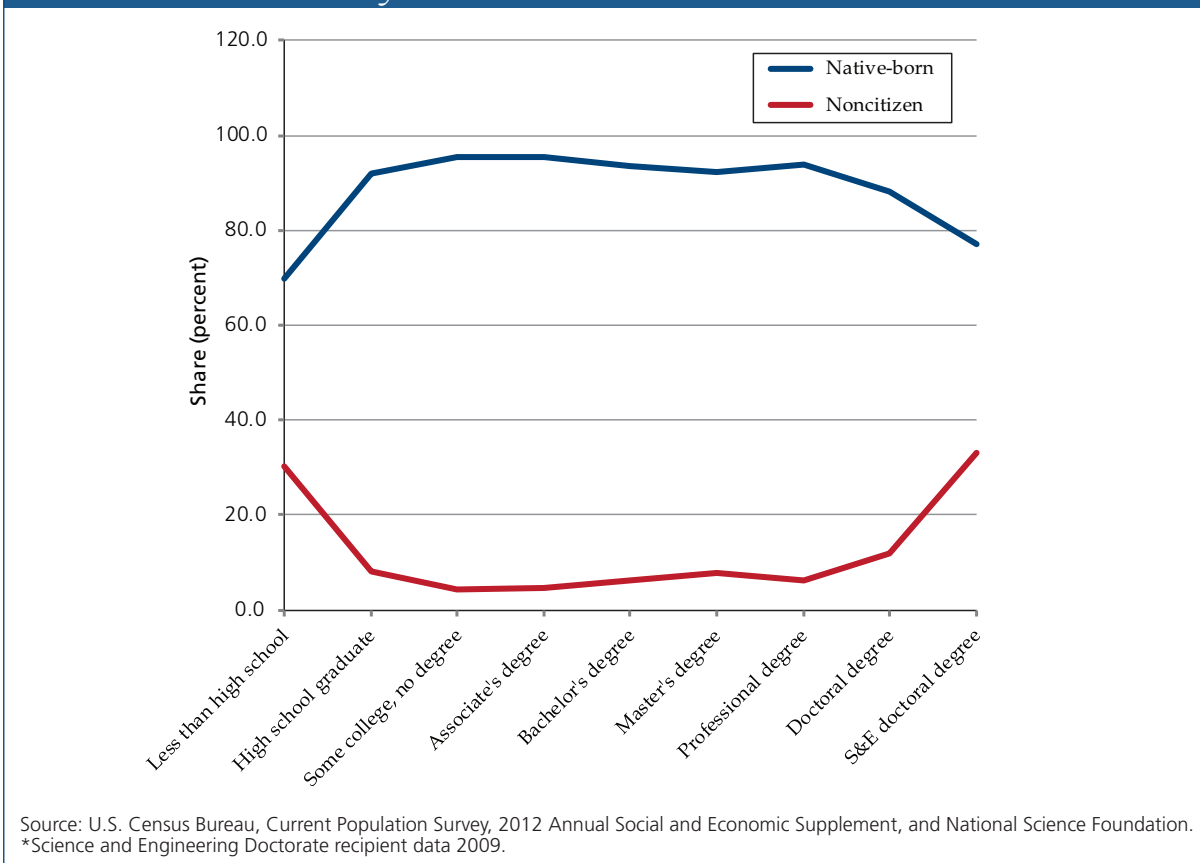
As America emerges from the recession and seeks to increase economic growth, immigration reform should be part of the growth agenda. Immigrants have been founders of many companies that have grown to billion dollar giants, such as Google and Yahoo!. Many immigrants have different skills from the native-born population, and complement the skills of the U.S. labor force. Immigrants make the economy more efficient by reducing bottlenecks caused by labor shortages, both in the high-skill and low-skill area.

The educational backgrounds of immigrants and native-born Americans are different. Statistically, the average skills of native-born American workers are distributed in a bell-shaped curve. Many Americans have high school diplomas and some college education, but relatively few adults lack high school diplomas and even fewer have Ph.D.'s in math and science. In contrast, immigrants' skills are distributed in a U-shaped curve, with disproportionate shares of adults without high school diplomas who seek manual work and others with Ph.D.'s in math and science.

Among native-born Americans, 91 percent have a high school diploma or higher, whereas only 62 percent of noncitizens do. Immigrants make the economy more efficient by reducing bottlenecks caused by labor shortages, both in the high- and low-skill areas, and creating jobs for native-born Americans. The share of immigrants by educational attainment is shown in Figure 1.

Migrant inflows have declined in relative terms. Annual immigration from all countries has fallen since its peak of 1.8 million green card recipients in

Figure I: Share of Native-born Americans and Noncitizens Ages 25 and Over by Educational Attainment, 2012



1991.<sup>2</sup> Immigration was less than one percent of the U.S. labor force in 2011, down from 1.4 percent of the labor force in 1991.<sup>3</sup> In 2011, Caribbean, Central American, and South American immigrants combined were equivalent to two tenths of a percent of the labor force, whereas Mexicans accounted for one tenth of a percent of the labor force.<sup>4</sup> Meanwhile, the foreign-born population has been largely flat since the late 2000s. Foreign-born workers of Hispanic origin, including undocumented workers, made up 8 percent of the labor force in 2011.<sup>5</sup> Furthermore, the number of undocumented workers in the United States has been declining since 2007, as can be seen in Figure 2.

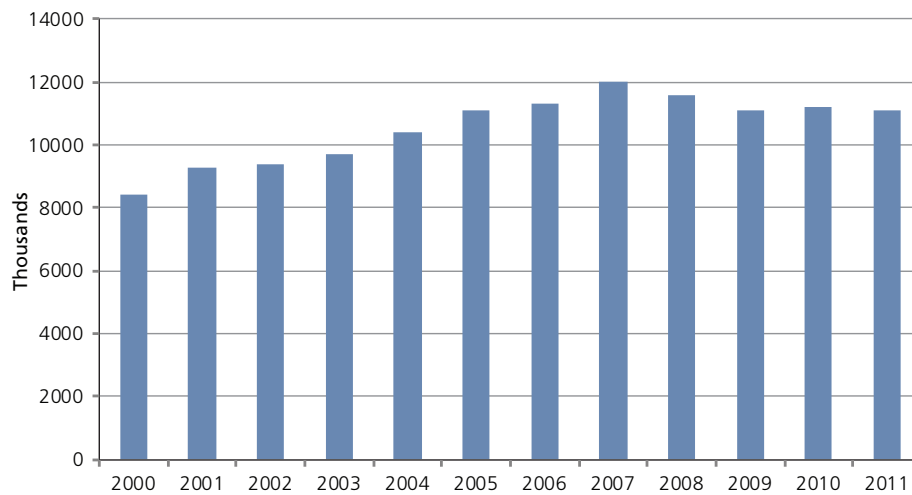
Immigrants are about 16 percent of the labor force,<sup>6</sup> yet represent 49 percent of the labor force without a high school diploma, 25 percent of all doctorates, and 35 percent of doctorates in science, math,

computer science, and engineering.<sup>7</sup> However, since they have a smaller share of high school diplomas and B.A.'s, which is where native workers tend to be concentrated, they do not compete directly with most native-born workers.

### “THEY DO THE JOBS WE WON’T DO”

Immigrants have different skills and job preferences from native-born Americans, and so they make American workers more productive. Immigrants complement rather than substitute for native-born workers and capital moves to take advantage of available labor.<sup>8</sup> Although immigrants will be substitutes for some primarily low-skilled workers, many of whom are immigrants too, the negative effect on such workers is much smaller than the positive effect for everyone else. The economy as a whole

Figure 2: Estimate of U.S. Unauthorized Immigrant Population, 2000–11



Source: U.S. Census Bureau, Current Population Survey, 2012 Annual Social and Economic Supplement, and National Science Foundation.  
\*Science and Engineering Doctorate recipient data 2009.

gains, with substantially more winners than losers. In our society, this makes it possible for the winners to compensate those who lose from immigration, and still come out ahead.

Hispanic and Latino immigrants comprised 42 percent of the American unskilled labor force (defined as those without a high school diploma).<sup>9</sup> Low-skilled immigrants are disproportionately represented in the service, construction, and agricultural sectors, with occupations such as janitors, landscapers, tailors, plasterers, stucco masons, and farmworkers. Government, education, health, and social services, are sectors that employ few immigrants.

Immigrants choose different jobs from native-born Americans. Low-skill immigrants come to be fruit pickers, as well as janitors and housekeepers, jobs native-born Americans typically do not choose as careers. However, immigrants are not found as crossing guards and funeral service workers, low-skill jobs preferred by Americans. Similarly, high-skilled immigrants prefer occupations such as research scientists, dentists, and computer hardware and software engineers. They generally do not choose to be lawyers, judges, or education administrators. Table

1 shows the percent distributions of foreign-born and native-born American workers by occupation.

Even in broad categories of employment, a difference in occupational choice is seen, as is shown in Table 1. Among professionals, foreign-born workers are employed in computer and mathematical occupations at a higher rate than native-born workers, 3.5 percent versus 2.4 percent. Native-born workers are more than twice as likely to be employed in legal occupations as immigrants, 1.4 percent compared with 0.4 percent. Workers born in America are much more likely to work in education, training, and library occupations than foreign-born workers, 6.6 percent versus 3.7 percent.

In service-oriented fields, 7.9 percent of immigrants work in food service, compared with 5.1 percent of native-born workers. Almost 9 percent of immigrants are employed in building, grounds keeping, and maintenance, but only 3 percent of native-born Americans are.

Nearly a quarter of native-born workers are employed in sales and office occupations, compared with 17.5 percent of immigrants. Among immigrants, 13.5 percent are employed in natural resources,

**Table I: Percent Distribution of Foreign-born and Native-born Workers Aged 16 and Over by Occupation, 2011**

Occupation	Foreign-born	Native-born
Total employed	100	100
Management, professional, and related occupations	28.6	39.3
Management, business, and financial operations occupations	11	16.3
Management occupations	7.6	11.5
Business and financial operations occupations	3.4	4.7
Professional and related occupations	17.6	23
Computer and mathematical occupations	3.5	2.4
Architecture and engineering occupations	2	2
Life, physical, and social science occupations	1	0.9
Community and social service occupations	0.9	1.8
Legal occupations	0.4	1.4
Education, training, and library occupations	3.7	6.6
Arts, design, entertainment, sports, and media occupations	1.4	2.1
Healthcare practitioner and technical occupations	4.8	5.7
Service occupations	24.6	16.4
Healthcare support occupations	2.6	2.4
Protective service occupations	0.9	2.5
Food preparation and serving related occupations	7.9	5.1
Building and grounds cleaning and maintenance occupations	8.8	3
Personal care and service occupations	4.3	3.4
Sales and office occupations	17.5	24.8
Sales and related occupations	8.7	11.4
Office and administrative support occupations	8.7	13.4
Natural resources, construction, and maintenance occupations	13.5	8.5
Farming, fishing, and forestry occupations	1.9	0.5
Construction and extraction occupations	8.5	4.5
Installation, maintenance, and repair occupations	3.2	3.6
Production, transportation, and material moving occupations	15.8	11
Production occupations	8.7	5.3
Transportation and material moving occupations	7.2	5.7

Reproduced from Bureau of Labor Statistics, "Foreign-Born Workers: Labor Force Characteristics – 2011," 2012, Table 4, <http://www.bls.gov/news.release/forbrn.nr0.htm>.

construction, and maintenance occupations, whereas only 8.5 percent of native-born workers belong to this category. These proportions are further illustrated in Figure 3.

## THE IMMIGRANT AS ENTREPRENEUR

One way to understand the benefits of immigration for native-born Americans is to examine the role of

foreigners in start-ups. Economist Robert Litan has estimated that the U.S. economy now generates about 15 new companies a year that are likely to grow to have a billion dollars or more in annual revenue. Litan also predicts that legal and regulatory reform could increase that number to 45 to 75 such new companies, raising GDP growth by a full percentage point. With GDP growth at 4 percent the economy would double in 18 years, raising real incomes.<sup>10</sup>

Start-ups lead to economic growth, and immigrants found new companies in America at greater rates than do the native-born.<sup>11</sup> Examples include Sergey Brin’s Google, Andrew Grove’s Intel; Jerry Yang’s Yahoo!; Pierre Omidyar’s eBay; and Elon Musk’s PayPal and SpaceX, to name but a few. Alexander Graham Bell, Levi Strauss, Adolph Coors, and Henry Heinz were all immigrants who founded profitable new American businesses.

However, the share of immigrant-founded Silicon Valley companies has declined from 52 percent between 1995 and 2005 to 44 percent between 2006 and 2012.<sup>12</sup> By making it difficult for high-skill workers to stay in America, Congress is dissipating the value America receives from private and taxpayers’ investments in research.

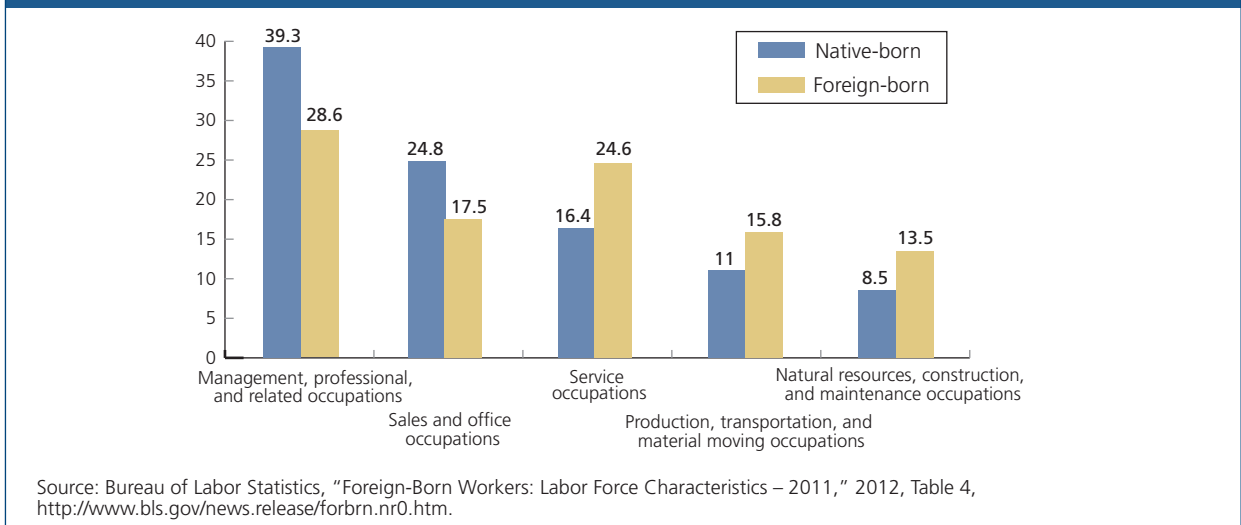
## IMMIGRANTS IN ACADEMIA

American universities are among the world’s leading research institutions, attracting the top minds, not only those from America but also from many other countries. The National Science Foundation data show that 176,000 foreign graduate students studied science and engineering in American universities in 2010, up from 172,000 in 2009.<sup>13</sup>

In 2009, the most recent year for which data are available, the federal government spent more than \$63 billion on science and engineering research at American universities and research institutions.<sup>14</sup> This helps finance Ph.D. programs, which are heavily populated with foreign students. More than \$35 billion of this spending is done through the Department of Health and Human Services. Other funders include the Defense Department, at \$6.8 billion, and the Department of Energy, at \$7.2 billion.<sup>15</sup>

Many universities rely on graduate students for research assistance and technical expertise. Government research trains graduate students in the latest technologies. Most research does not require security clearances, and little if any research is restricted to American students. Because of this, 52 percent of

Figure 3: Native-born and Foreign-born Workers as a Share of Occupation Types, 2011



doctorate recipients in engineering and 40 percent of graduate students in the physical sciences were foreign-born temporary U.S. residents in 2011.<sup>16</sup>

Immigrants are also prominent in advanced scientific research. Over one-third of U.S. Nobel Prize winners in physiology or medicine between 1901 and 2012 were foreign-born. If it were easier for foreign-born students and workers to obtain provisional visas to stay and work in America, visas that could transition into green cards later, America would have faster GDP growth and job creation.

With another two dozen new Apples or Facebooks every year making similarly attractive products, U.S. economic growth and employment would be substantially higher.<sup>17</sup> Data show that new companies, those in their first few years of existence, hire a substantial number of workers.

## IMMIGRANTS IN THE LABOR FORCE

In recent years, immigrants have had higher labor force participation rates than native-born Americans, as can be seen from Figure 4. Since 1999, the difference

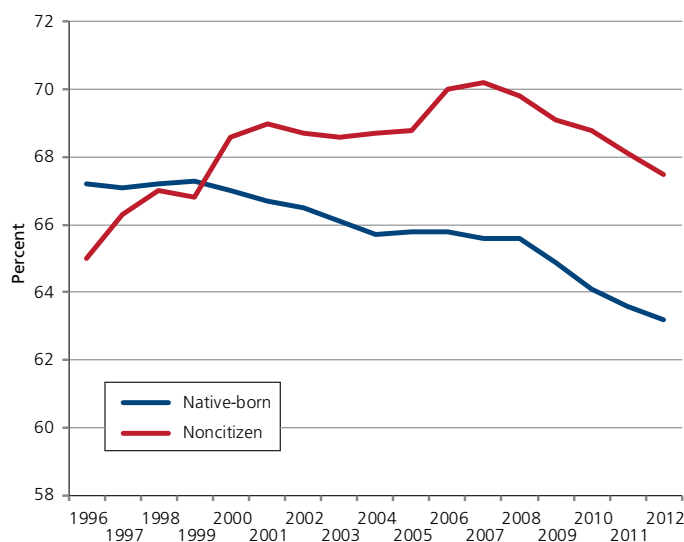
between the labor force participation rates of the two groups have been steadily increasing. In 2012, 67.5 percent of immigrants participated in the labor force, compared to 63.2 percent of native-born Americans.

In February 2011, at a small dinner with President Obama, Apple founder Steve Jobs emphasized the need for more engineers in America. He suggested rewarding foreign engineering students earning a degree in the United States with a visa. At the time of their conversation, Apple employed 700,000 line workers in Chinese factories, because there were 30,000 engineers on-site. “You can’t find that many in America to hire... If you could educate these engineers, we could move more manufacturing plants here.”<sup>18</sup>

Some might say that offering visas to foreign engineers denies opportunities to native-born aspiring engineers. But, as Jobs pointed out, there are not enough Americans with engineering degrees to satisfy the economy’s demand for engineers.

The same holds true at the low end of the skill scale. Farms provide income to farmers, as well as to other native-born Americans employed in the industry

Figure 4: Labor Force Participation Rates of Native-born Americans and Noncitizens, 1996–2012



Source: Unpublished foreign-born tables, Current Population Survey, Bureau of Labor Statistics, 2013.



in trucking and distribution. If farmers cannot get low-skill immigrants to pick fruit, as was the case in Washington State for the 2012 apple crop, agriculture will move offshore to where low-skill labor can be found. Consumers may not care where their food comes from, but American farmers most certainly do. It makes little sense to send a whole economic sector to other countries just to avoid employing immigrants. America could import produce from abroad at little additional cost.

The reason immigrants come to America is because they see opportunity—gaps in our economy that they have the skills to fill. The goal for any worker is to find a market in which his skills are valued. For many workers all over the world, that is the United States.

## AMERICAN IMMIGRATION POLICY IS BROKEN

Each year the United States Citizenship and Immigration Services accepts applications for H-1B visas. Sixty-five thousand H-1B temporary visas are issued to skilled workers certified by the Labor Department, and 20,000 H-1B visas are issued to those with U.S.-awarded masters degrees.<sup>19</sup> In addition, some companies will acquire three-year extensions on previous visa renewals. Non-profits and institutions of higher education are exempt from the visa cap, so those workers will also receive visas. In 2011, the United States Citizenship and Immigration Services issued 129,000 new or extended H1 visas.

The demand for foreign labor far outstrips the supply of H-1B visas. Visa applications can be filed on April 1 of each year. In 2012, the cap was reached on June 11.<sup>20</sup> In 1999, Congress temporarily raised the quota to 115,000, and again to 195,000 in 2001, a number that did not exceed demand, but the quota reverted to 65,000 (plus 20,000 awarded for recipients of U.S. advanced degrees) in 2004.<sup>21 22</sup>

The current figure (85,000) represents a small fraction of the U.S. labor force of 156 million.<sup>23</sup> Even if the quota were raised to 150,000 annually when

employment growth picks up, that would be less than one tenth of one percent of the labor force. A higher quota would still block admission to the vast majority of applicants who are discouraged from applying due to the small likelihood of success.

After receiving an H-1B visa, the next step is to get permanent residency through the employment-based “green card” program. Government data show that of the 1.1 million awarded “green cards” in 2011, 15,000 went to new arrivals sponsored by an employer, and 124,000 went to current residents sponsored by an employer. Of these, about 1,400 were low-skilled workers.<sup>24</sup> While some types of workers are “current,” highly educated Chinese workers who applied after December 8, 2007 and Indian workers who applied after September 1, 2004 are not eligible for employment-based visas.<sup>25</sup>

The backlog in the immigration system does not stop upon entrance. Once an immigrant enters the United States, if he violates the terms of his visa, he may be called in front of an immigration court. The wait times for immigration court processing are substantial. According to data from Syracuse University’s Transactional Records Access Clearinghouse, the average wait time for an immigration case decision was 525 days in the year ending October 31, 2012.<sup>26</sup> Table 2 shows waiting times by country of origin. Chinese citizens, for example, had an average wait time of 786 days.<sup>27</sup>

The U.S. Citizenship and Immigration Services estimates that there are about 13.1 million legal permanent residents of the United States, and 129,000 workers were admitted with H-1B visas in 2011.<sup>28 29</sup> The estimated number of illegal immigrants was 11.5 million in January 2011, close to the number of legal permanent residents admitted for any reason—family, sanctuary, or work.<sup>30</sup> A 2012 estimate suggested that 4.9 million illegal immigrants had entered the country between 2000 and 2011.<sup>31</sup>

Employers seeking to hire immigrants must navigate a number of obstacles. If the employer wishes to hire an immigrant to work permanently in the United

**Table 2: Immigration Processing Time by Selected Country of Origin (Year Ended October 31, 2012)**

Nationality	Average Days To Completion
All Nationalities	525
Australia	216
Austria	111
Belgium	1,070
Canada	362
Chile	567
China	786
Czech Republic	719
Estonia	1,950
France	290
Germany	425
Greece	331
Hungary	503
Iceland	885
India	762
Ireland	803
Israel	509
Italy	358
Japan	644
Mexico	472
Netherlands	364
New Zealand	364
Poland	581
Portugal	602
Slovak Republic	724
Spain	285
Sweden	245
Switzerland	106
Turkey	681
United Kingdom	508

Source: Syracuse University, Transactional Records Access Clearinghouse, "Immigration Court Processing Time by Outcome," 2012, [http://trac.syr.edu/phptools/immigration/court\\_backlog/court\\_proctime\\_outcome.php](http://trac.syr.edu/phptools/immigration/court_backlog/court_proctime_outcome.php).

States, the employer must prove to the Department of Labor that qualified local workers are unavailable at market wages. Employers categorized as H-1B Dependent, those whose workforce is comprised of 15 percent workers on H-1B visas, must prove they have recruited U.S. workers for the position, and that the hire will not displace U.S. workers. Employers must also commit to paying prevailing wages for both permanent and H-1B hires.

Then, a complicated game of “application tag” ensues, with the State Department and Department of Homeland Security sending documentation back and forth, validating identities and ensuring that no employer is trying to hire a criminal, terrorist or undesirable person. These may be necessary steps, but they are time-consuming. Even if the State and Homeland Security Departments would find a worker acceptable, arbitrary quotas may render the entire process moot.

These protections and regulations are less burdensome for temporary workers, but still require extensive documentation and cost. Applications for “national interest waiver-based permanent residency visas” can take an entire month to complete and cost \$6,000 in legal fees and \$1,000 in application fees. For people seeking permanent residency, the process can take years or even decades. This adversely affects U.S. labor market competitiveness.

## HISTORICAL OPPOSITION TO IMMIGRATION IN AMERICA

Opposition to immigration is as old as immigration itself. In the 1850s, the goal of the Know-Nothing Party, also called the American Party, was to keep only white native-born Americans in political power and limit immigration. Members of the party had to swear “that you will not vote, nor give your influence for any man for any office in the gift of the people, unless he be an American-born citizen, in favor of Americans ruling America, nor if he be a Roman Catholic...”

The party was particularly concerned by the influx of Irish and, to a lesser extent, German, Catholic immigrants in the late 1840s. The Know-Nothing Party set on fire the homes of Irish tenants and Catholic churches. There were riots in Baltimore, Maryland, in 1856 when a Know-Nothing candidate, Thomas Swann, was elected mayor. The secretive party required that if members were asked about Party activities they reply, “I know nothing.”

In 1894, the Immigration Restriction League was founded for the purpose of decreasing the immigration of undesirable immigrants. It also sought to restrict immigrant voting through reading tests. The purpose of the League was “to advocate and work for the further judicious restriction or stricter regulation of immigration, to issue documents and circulars, solicit facts and information on that subject, hold public meetings, and to arouse public opinion to the necessity of exclusion of elements of undesirable for citizenship or injurious to our national character.” In 1918 the Immigration Restriction League presented a

bill which would decrease immigration from Southern and Eastern Europe but allow more immigration from Northern and Western Europe.

The Immigration Act of 1924, the Johnson-Reed Act, placed restrictions on immigration that lasted until the 1960s. During the debate over the Act, Senator Ellison DuRant Smith of South Carolina, a Democrat who served from 1909 to 1944, said on the floor of the Senate, “I think we now have sufficient population in our country for us to shut the door and breed up a pure, unadulterated American citizenship. Thank God we have in America perhaps the largest percentage of any country in the world of the pure, unadulterated Anglo-Saxon stock...”

Harvard professor Samuel P. Huntington wrote in *Foreign Affairs* in 2004 that true assimilation of Hispanic immigrants is impossible. According to Huntington:

Americans like to boast of their past success in assimilating millions of immigrants into their society, culture, and politics. But Americans have tended to generalize about immigrants without distinguishing among them and have focused on the economic costs and benefits of immigration, ignoring its social and cultural consequences. As a result, they have overlooked the unique characteristics and problems posed by contemporary Hispanic immigration. The extent and nature of this immigration differ fundamentally from those of previous immigration, and the assimilation successes of the past are unlikely to be duplicated with the contemporary flood of immigrants from Latin America.<sup>32</sup>

Former congressman Tom Tancredo, in an editorial entitled “Hispanic Assimilation Has Failed,” argues that low rates of identification as Americans means they “have some huge gaps still to bridge if assimilation to American society is to be achieved.”<sup>33</sup>

Similar concerns about assimilation were made about Jews, Italians, Irish, Germans, Poles, and even Norwegians when they first came to America, yet all

eventually assimilated. Research by Princeton University professor Douglas Massey shows that within two generations Mexican immigrants in California stop speaking Spanish at home, and within three generations they cease to know the language altogether. He concludes, “Like taxes and biological death, linguistic death seems to be a sure thing in the United States, even for Mexicans living in Los Angeles, a city with one of the largest Spanish-speaking urban populations in the world.”<sup>34</sup>

In a 2013 update to his *Measuring Immigrant Assimilation in the United States* series for the Manhattan Institute, Duke University professor Jacob Vigdor found that assimilation is steadily increasing among immigrants. In 2011, he found the greatest amount of assimilation since 1980, a full generation, in cultural, economic, and civic areas. Composite, cultural, and civic indices are all on clear upward trends. According to Vigdor, the increased extent of economic assimilation likely shows a combination of improving economic and migratory trends: unsuccessful migrants leaving, foreigners with weak prospects electing not to migrate.<sup>35</sup>

## DO IMMIGRANTS DEPRESS WAGES?

One reason that Congress does not increase the number of visas is the popular perception that foreign workers, especially those with low skill levels, harm job opportunities of native-born workers. The concern that immigrants drive out native-born immigrants from jobs is predicated on the assumption that large numbers of immigrants are displacing American workers, even though, as we saw in the previous section, the numbers are low as a percentage of the labor force.

A major concern of those critical of immigration, such as Harvard University professor George Borjas, is that immigrants depress wages. Nevertheless, many economists have found that immigrants sometimes raise wages, rather than decreasing them. For example, senior economist Pia Orrenius of the Federal Reserve Bank of Dallas finds a slight increase in wages for professionals and a slight decline for manual workers from immigration of less than 1 percent.<sup>36</sup>

David Card of the University of California, Berkeley finds a decrease in wages of about 3 percent among low-skilled workers in high immigrant cities such as Miami and Los Angeles, and smaller effects in other cities and occupational groups.<sup>37</sup> Card (2009) goes on to find that immigration yields a 5 percent increase in overall wage inequality. This finding supports the other studies showing immigration increases wages of high-skilled workers and decreases wages of low-skilled workers.<sup>38</sup>

Professor Giovanni Peri of the University of California, Davis, in a paper just published in the *Journal of the European Economic Association*, coauthored with Bocconi University Professor Gianmarco Ottaviano, concludes that immigration raised wages of native-born Americans by six tenths of a percent during the period from 1990 to 2006. It decreased wages of existing immigrants by 6.7 percent, because new immigrants are substitutes for prior waves of immigrants.<sup>39</sup>

Although immigrants no doubt will displace some low-skilled workers, primarily other immigrants, the negative effect on such workers is much smaller than the positive effect for everyone else. The economy as a whole gains, with substantially more winners than losers.

Unlike other economists, Borjas assumes that immigrants are substitutes for native-born workers. Furthermore, he assumes that capital is fixed and does not respond to changes in wage rates.<sup>40</sup> According to Borjas, low-skilled immigrants arrive in America and take jobs away from African-Americans. Due to the lack of job opportunities, African-Americans are drawn into illegal activities, get arrested, and are then put in prison. Borjas concludes that employment and incarceration rates of black men are highly sensitive to immigration, although “much of the decline in employment or increase in incarceration in the black population remains unexplained.”<sup>41</sup>

One problem with this line of reasoning is that young black men began withdrawing from the labor force in the 1960s, when the share of im-

migrants in the labor force was less than 1 percent. The percentage of black men between ages 16 and 24 who were not in school, not working, and not looking for work rose to 18 percent in 1982 from 9 percent in 1964. It then reached 23 percent in 1997<sup>42</sup> and remained at that level as of 2011.<sup>43</sup>

Borjas's findings that immigrants substantially lower Americans' wages not only have been questioned by other economists but have moderated over time. In 2003 Borjas found that immigrants lowered wages of average American-born workers by 3 percent and wages of high school dropouts by 9 percent.<sup>44</sup> A year later, he found that the effect on high school dropouts had moderated to a 7 percent loss.<sup>45</sup>

By 2006, Borjas had concluded that immigrants raised average wages of Americans by 0.1 percent and lowered the wages of the low-skilled, those without a high school diploma, by 5 percent.<sup>46</sup> This means that America has a net gain from immigrants. Since a relatively small percentage of American workers have less than a high school diploma (8.5 percent in 2012), it is possible for these workers to be compensated through transfer payments, leaving our economy still ahead.

In a 2011 paper, Borjas admits that “the economics literature has found it difficult to document the inverse relation between wages and immigration-induced supply shifts.”<sup>47</sup> If immigrants affect any wages, it is those of prior immigrants, who compete for the same jobs that new immigrants are after. But we do not see immigrants protesting in the streets to keep others out, as we see homeowners in scenic locations demonstrating against additional development. Rather, some of the biggest proponents of greater immigration are the established immigrants themselves, who see America's boundless opportunities as outweighing negative wage effects.

## A RATIONAL IMMIGRATION POLICY

To encourage economic growth, America needs to issue more visas and admit more immigrants legally.

This would raise more revenue and confer a net benefit on the economy.

Arlene Holen of the Technology Policy Institute, using methodology from the Congressional Budget Office, has estimated that in the absence of constraints on green card and H-1B visas over the period 2003–07, an additional 182,000 foreign graduates in science, technology, engineering, and mathematics (STEM) fields would have remained in the United States. Their earnings and contribution to GDP would have been \$14 billion in 2008, and they would have paid \$2.7 billion to \$3.6 billion in taxes.<sup>48</sup>

In addition, in the absence of constraints on visas, during that same period, 300,000 H-1B visa holders would have remained in the U.S. labor force rather than returning to their home countries. Holen estimates that they would have earned \$23 billion in 2008, and generated \$4.5 billion to \$6.2 billion in tax revenue during that year.<sup>49</sup>

Her study estimates that proposals considered by Congress five years ago to loosen green card and temporary work constraints for high-skill workers would reduce the deficit on the order of \$100 billion over ten years.

## VISA AUCTIONS: A SIMPLE, EFFECTIVE REFORM

One simple way to reform immigration policy is for Congress to keep the same system we have now, but issue more employment-based visas, both to skilled and unskilled workers. Congress could also endorse the sale of visas or auctioning them off to raise revenue at the outset of the process.

Economists Pia Orrenius and Madeline Zavodny propose that the government auction off work permits to employers that allow them to hire foreign workers. This would simplify our complicated immigration system and create revenue for the Treasury.<sup>50</sup> The authors suggest initial minimum prices—that would fluctuate according to demand—of \$10,000 for a

high-skill permit, \$6,000 for a low-skill permit, and \$2,000 for a seasonal permit. The permits would become tradable.

This approach would replace the current alphabet soup of different visa types. As an added benefit, the money paid by immigrants to smugglers and lawyers will be redirected to the government and hence the taxpayer.

Congress is unlikely to adopt any immigration proposal swiftly. But what might tempt Congress in these days of fiscal austerity are auction revenues. When unemployment is high, as now, the number of visas, set by an independent commission, would be kept low. When the economy reaches full employment, the quota might be raised.

Auctioned permits, in the proposal above, would be good for five years, and could be sold to other employers if original purchasers no longer needed them. With an active market in permits, employers would buy them from each other, as well as at quarterly government auctions. According to Ms. Orrenius, “The advantage of having the employer buy the permit is that more immigrants who enter the United States would come with a job and immigration would generate government revenue.”

Orrenius and Zavodny want to eliminate illegal immigration, give priority to employment-based immigration, raise money to cover services immigrants use, and set visa caps that can grow with the economy. They would limit family reunification to spouses and children; other relatives would have to get their own permits. Foreign workers would be granted a five-year provisional work visa through an employer who would commit to hiring the immigrant. Visa holders would be free to move to another employer who had a work permit at any time. They could stay longer if they found someone to hire them, and could eventually apply for a green card and citizenship.

The number of permits offered at government auctions would depend on employer demand, as estimated by an independent group or a rule. If the

price of the permits for a given skill level was high, this would be a signal for government to sell more permits for that group—and lower the number of permits if the price declined. Orrenius and Zavodny suggest starting with approximately 1 million permits per year, reflecting the number of foreign workers granted different types of visas annually now.

One twist, which Orrenius and Zavodny do not propose, would allow different prices to be charged for workers with different skills. If particle physicists were in demand one year, the price of their work permits would be higher. Depending on the mix of high-skill, low-skill, and seasonal workers, initial revenues to the government might be as much as \$6 billion. The authors suggest that these funds be allocated to communities, based on the numbers of immigrants they take, to cover local costs, such as schooling and health care.

University of Chicago economics professor Gary Becker has proposed raising even more money by auctioning off green cards to individual immigrants, starting at \$50,000, raising about \$50 billion annually. This auction could occur in parallel with employer auctions. Green card purchasers might buy houses, go shopping to help our economy, or start businesses. Many affluent families facing increasing violence in other parts of the world would be glad of the chance to buy a green card to come to America. Crumbling cities such as Detroit could be rejuvenated with legal immigrants. They could buy real estate, raising land values. They could start businesses, ranging from restaurants to software companies.

## DEBATE IN WASHINGTON

In January 2013 a bipartisan group of senators, including Democrats Chuck Schumer (New York) and Dick Durbin (Illinois), and Republicans Lindsay Graham (South Carolina) and Marco Rubio (Florida), announced an outline for a broad immigration bill, endorsed by President Obama. It would be the first such bill to become law since the Immigration Reform and Control Act of 1986. The proposal, which as of this writing has yet to be fleshed out in the detail that

often confounds agreements in principle, would offer a path to legal status to many of America's 11 million unauthorized immigrants. The senators contemplate that these immigrants would first be eligible for work permits, and then would be able to join the back of the line to get green cards and citizenship. That will be hotly debated on Capitol Hill.

The path to legal status would be open to immigrants who have not committed serious crimes and who pay back taxes they may owe, as well as a fine. For men and women who have been working here for years and have paid no taxes, that could be a high hurdle. Final legislative language should cap tax payments, or allow them to be paid over a longer period of time, perhaps with a higher Social Security tax rate.

The proposal states that immigrants on work permits would not qualify for federal public benefits, such as food stamps, free school lunch programs, and health insurance subsidies under the Affordable Care Act. The status of state welfare programs, such as Medicaid and unemployment insurance, would presumably be decided by individual states.

This proposal follows the outlines of the Brookings-Duke Immigration Policy Roundtable, which published a comprehensive set of immigration reform proposals in 2009.<sup>51</sup> It is also similar to reform plans that failed in 2005 and 2007, when Arizona Republican senator John McCain and the late Massachusetts Democrat Edward M. Kennedy co-sponsored bills. That they were not enacted was not for want of presidential leadership, for in 2007 President George W. Bush travelled the country promoting immigration reform.

Rather, in 2007 some Republicans opposed the immigration bill because they said that it would reward people coming into the country illegally. Some Democrats didn't want to vote for it because they didn't want Bush to be the president who signed immigration reform into law. The emerging bipartisan agreement would make it easier for new immigrants to enter the country legally, and strengthen enforcement measures, at the border and in the workplace.

Although the 112<sup>th</sup> Congress did not pass immigration legislation, President Obama took matters into his own hands and instructed the Department of Homeland Security through executive order to interpret regulations to make them friendlier to immigrants. For example, entrepreneurs can now qualify as an individual of exceptional ability in sciences, arts, or business. Regulations also broadened H-1B visa eligibility of entrepreneurs with ownership in companies. This is a worthy goal, but it should be done through changes in the statute rather than changes in regulation.

The Homeland Security Department, through regulatory reform, is also enhancing EB-5 Visa processing and expanding premium processing for employers seeking high-skilled workers. The list of STEM degrees which automatically qualify eligible graduates holding student visas for an Optional Practical Training extension is being expanded. New categories introduced in 2011 and 2012 include neuroscience, medical informatics, pharmaceuticals and drug design, and econometrics. This means these STEM graduates will have an additional 17 months to remain in the United States to pursue work training in their field, beyond the initial 12 months available to all graduates. Furthermore, DHS is expanding immigration regulations in other ways such as providing spouses of certain H-1B visa holders with work authorization.<sup>52</sup>

President Obama also instructed the Homeland Security Department by executive order, shortly before the 2012 election, not to deport undocumented immigrants who came here as children. The Development, Relief, and Education for Alien Minors Act (DREAM Act), versions of which failed in multiple Congresses, would have allowed some of these children to stay.

## CONCLUSION

American history is a vast complex of triumphs and challenges. We are largely a nation of immigrants and their descendants. Immigration has always been a part of American life, usually for good, and not the

cause of the challenges that face our country. Some economists have found that immigration is bad for America. The result is not only counterintuitive, it is economically wrong.

America's goal should be an immigration policy that fosters economic growth. That requires finding a way to allow people who want to work here to come legally. Since most immigrants' skills are complements to the skills of native-born Americans, this would increase the efficiency of our economy and create jobs for native-born Americans. With our economy in a slow process of recovery, we should be giving visas to those with innovative ideas who can help move our economy forward. This would prevent offshoring of American jobs and keep job growth here at home.

With a global market for talent, we should make it easy for the best and the brightest to come to America. Currently, the reverse is true. Only 13 percent of green cards authorizing a path to citizenship are granted for employment purposes. It is far easier for talented immigrants to settle in Canada and Australia than in the United States. This hurts our competitiveness both in the short run and in the long run, as innovations and start-ups which should have been developed here are located in other countries.

Throughout American history, some Americans have been opposed to immigration. However, immigrants make the economy more efficient and raise the wages of native-born Americans.

Immigration reform can be accomplished in many ways. Congress could simply expand the number of employment-based visas granted to skilled and unskilled workers. A more complex solution, but one that would raise some revenue, would be to set up a system of tradable work permits for which employers would pay. Similarly, visas and permits could be auctioned to the highest bidder. Finally, a new version of comprehensive immigration reform, the 2007 McCain-Kennedy bill, was proposed by a bipartisan group of senators in January 2013.

Any of these initiatives would improve the glacial pace of our immigration system, where people can wait for decades to enter the country.

Why should immigration policy succeed today when it has failed in the recent past? There are three reasons.

First, even though President George W. Bush supported broad immigration reform, including a path to citizenship for undocumented workers, other Republican politicians have taken anti-immigrant positions, so Hispanics perceive Republicans as anti-immigration. This cost Republicans votes, and possibly the presidency, in the 2012 election. According to the Pew Research Center, 71 percent of Hispanics voted for President Obama on Election Day. Members of Congress are above all concerned about their reelection prospects. Having fared badly with Hispanic voters at the polls, Republicans appear to be more inclined to vote for reform today than in 2007.

Second, there are new enforcement mechanisms, such as unmanned (and unarmed) aerial surveillance vehicles, or drones. They can watch both sides of the U.S.-Mexico border and make unnecessary the controversial and expensive border fences. The images the drones transmit to monitors permit deployment of border patrol forces. The Department of Homeland Security reported in May that each drone cost about \$18 million, and the U.S. Customs and Border Protection has about 10 in operation.

Finally, America's economy is in worse economic shape than in 2007, with a slower growth rate and a higher unemployment rate. Net immigration has slowed. To some, a bad economy means that America does not need more immigrants. Others believe that more immigrants will create jobs and invigorate our economy.

Immigrants come to America because they see opportunity—gaps in our economy that they have the skills to fill. America's goal should be a policy that enables them to come legally, and fosters economic growth. Now is the time for reform.



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