
Challenges for US Immigration Policy

GORDON H. HANSON

Immigration is a source of contention in American life. The issue divides the public, as it divides both major political parties. When asked about the contributions of immigrants to US society, 70 percent of survey respondents recognize these as being positive. But when asked about the level of immigration, 45 percent prefer to see the number of immigrants entering the country reduced (Scheve and Slaughter 2001a). The American public is roughly divided between those that prefer scaling down immigration and those that prefer maintaining it at current levels. Americans appear to believe that immigration offers a range of potential benefits to the country but are also concerned about the costs associated with admitting foreigners.

In this setting, reforming immigration policy might seem like a political minefield better left unexplored. However, ignoring immigration would be a mistake. US immigration policy is broken and in need of repair. Perhaps the most glaring examples of policy failure are that one-third of immigration is illegal and the population of illegal immigrants in the United States is now 10 million. Rampant illegality undermines US economic, legal, and political institutions and threatens US national security. Left alone, the problem will not solve itself. Each year, 400,000 new illegal immigrants enter the country. While the US Border Patrol attempts to control illegal immigration by policing US borders, its efforts have been ineffective.

One reason immigration creates political tension is that immigrant inflows to the United States are growing steadily. Between 1970 and 2003, the share of the foreign-born in the US population increased from 5 to 12

Gordon H. Hanson is a professor of economics at the Graduate School of International Relations and Pacific Studies and the Department of Economics, University of California, San Diego.

percent. Whereas previous generations of immigrants came mainly from Europe, today's immigrants come primarily from Asia and Latin America. In contrast to their predecessors, many of today's immigrants enter with skill levels far below those of the typical US worker.

The economic rationale for immigration is that it increases national income for existing residents. By expanding the labor pool, immigration helps utilize US capital, technology, and natural resources more efficiently. However, the gains from immigration are not evenly distributed. Labor inflows tend to reduce incomes for workers who can be substituted with immigrant labor and to raise incomes for factors that complement immigrant labor. Since many new immigrants are unskilled, immigration tends to depress wages for low-skilled resident workers.

A second way in which immigration redistributes income is through its impact on public finances. Given their relatively low skill levels, immigrants are much more likely than the native-born to use public assistance and other entitlement programs. This has remained true even after welfare reform in 1996, which restricted the access of immigrants to many public benefits. Low immigrant skill levels mean low earning potential and low contributions to tax revenues. The end result is that immigration appears to create a net fiscal burden on US native-born taxpayers.

The new administration will have to make choices on four dimensions of immigration policy: level of immigration, composition of immigrants, rights to grant new immigrants, and enforcement against illegal immigration. On each dimension, there is scope for reforming policy in a manner that increases the net benefits of immigration to the United States and moderates immigration's impact on the distribution of income.

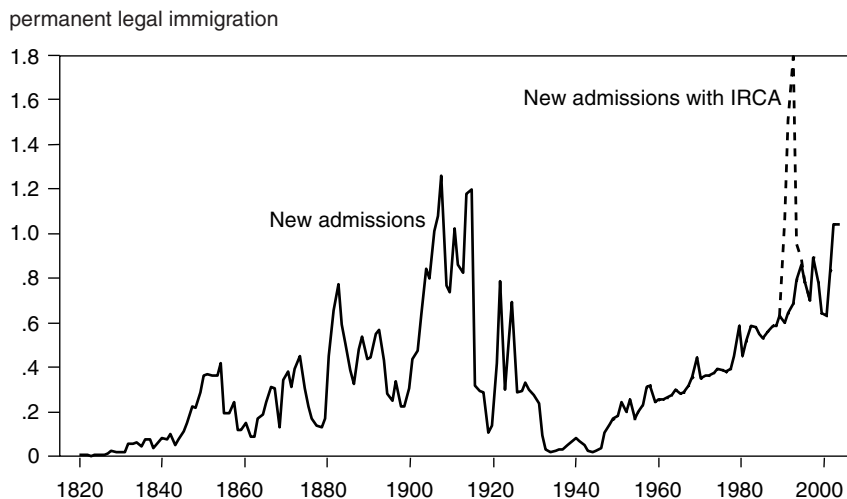
Past and Current US Immigration Policy

Before the 1920s, there were few numerical limits on US immigration.¹ Over the second half of the 19th century, immigration grew in fits and starts (figure 11.1). By 1910, new immigrant arrivals totaled over 1 million individuals a year, and the foreign-born share of the US population reached 15 percent. Opposition to high levels of immigration resulted in the passage of the Immigration Act of 1924, which imposed entry quotas based on national origin, which sharply restricted immigration overall and from countries outside western and northern Europe in particular.² After 1924, immigration declined dramatically and did not reach significant levels until the 1960s (figure 11.2).

1. One exception was the Chinese Exclusion Act of 1892, which banned immigration from China.

2. For histories of US immigration policy, see Tichenor (2002) and Daniels (2003).

Figure 11.1 Permanent legal immigration in the United States, 1820–2000 (millions of people)



IRCA = Immigration Reform and Control Act of 1986

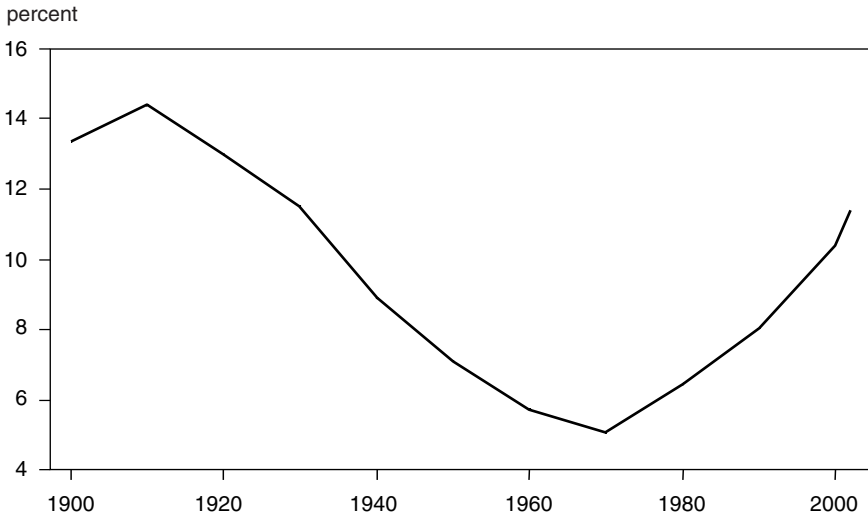
Source: US Department of Homeland Security, Office of Immigration Statistics *2003 Yearbook of Immigration Statistics*.

Current US immigration policy is based on a quota system established by the Hart-Celler Immigration Bill of 1965. Hart-Celler revised quotas based on national origin and made family reunification a central feature of US admission decisions.³ Under the present system, US Citizenship and Immigration Services (USCIS) assigns applicants for permanent legal residence to one of seven categories, each subject to its own quota level.⁴ The law guarantees admission to immediate family members of US citizens, who are exempt from entry quotas. Specific quotas are assigned to other family members of US citizens, immediate family members of legal US residents, individuals in special skill categories, and refugees and asylum

3. The 1965 law amended the Immigration and Nationality Act of 1952, which had created skill-based categories for immigration, without changing the 1924 restrictions on national origin (Smith and Edmonston 1997).

4. In 2003, the Immigration and Naturalization Service (INS) was moved from the Department of Justice to the Department of Homeland Security (DHS). INS functions were divided among three DHS agencies: immigration-related services moved to US Citizenship and Immigration Services (USCIS), enforcement of immigration laws in the interior United States moved to US Immigration and Customs Enforcement (ICE), and enforcement of US borders, including the US Border Patrol, moved to the Bureau of Customs and Border Protection (CBP).

Figure 11.2 Share of the foreign-born in the US population, 1900–2000



Source: US Census of Population and Housing, various years.

seekers facing persecution in their home countries.⁵ Of the 705,827 permanent legal immigrants admitted in 2003, 70 percent gained entry as family members of US citizens or legal residents, 12 percent gained entry on the basis of employment preferences, 7 percent were admitted under the diversity program, 6 percent were refugees, and 5 percent were in other categories. Additional admissions occur through temporary visas, the largest classes of which are for high-skilled workers (H-1B) or short-term manual laborers (H-2A, H-2B), who tend to be low-skilled.⁶ In 2003,

5. The Immigration Act of 1990 set a flexible cap for legal admissions at 675,000, of which 480,000 would be family-based, 140,000 would be employment-based, and 55,000 would be “diversity immigrants.” The law also set temporary immigration at 65,000 for the H-1B program and 66,000 under the H-2 program and created new categories for temporary admission of workers (O, P, Q, and R). Subsequent legislation created categories for temporary immigration of professional workers from Canada and Mexico as part of the North American Free Trade Agreement (DHS 2004).

6. To obtain a temporary work visa, a worker must be sponsored by a US employer. The H-1B visa applies mainly to workers in high-tech industries. It was created in 1990 to permit foreigners with a college degree to work in the United States for a renewable three-year term for employers who petition on their behalf. In 1998, Congress raised the annual number of H-1B visas from 65,000 to 115,000; in 2000, it raised the limit further to 195,000 visas; and in 2003, it allowed the number of visas to fall back to 65,000. The H-2B visa, created by the Immigration Reform and Control Act of 1986 (IRCA), applies to seasonal laborers in agriculture. The bureaucratic steps to obtain H-2 visas are onerous, which appears to limit their use. In a typical year, no more than 70,000 H-2A or H-2B visas are awarded.

the United States admitted 590,680 temporary workers and 135,933 immediate family members accompanying these individuals (DHS 2004).

After five years as permanent legal residents, immigrants are eligible to apply for US citizenship. Citizenship confers the right to vote and the right to draw on all government benefit programs for which an individual is eligible. In 1996, as part of welfare reform, Congress excluded noncitizen immigrants from access to many entitlement programs (Zimmerman and Tumlin 1999). Since then, some US states have restored immigrant access to some benefits. The Supreme Court has ruled that the government may not deny public education or emergency medical services to foreign-born US residents, even those in the country illegally.

Though the United States does not set the level of illegal immigration explicitly, existing policy in effect allows substantial numbers of illegal aliens to enter the country. The foreign-born share of the US population, shown in figure 11.2, includes substantial numbers of illegal immigrants.⁷ In 2004, the illegal immigrant population was 10 million (Passel, Capps, and Fix 2004). Most illegal immigrants enter the United States by crossing the US-Mexico border or by overstaying temporary entry visas. The US Border Patrol checks illegal immigration by policing the US-Mexico border and other points of entry from abroad and by seeking to prevent the smuggling or employment of illegal aliens. While the US Border Patrol has enforced the border against illegal immigration since 1924, the modern experience of high levels of illegal immigration dates back to the 1960s and the end of the *Bracero* program (1942–64), which allowed large numbers of seasonal farm laborers from Mexico and the Caribbean to work in US agriculture on a temporary basis.

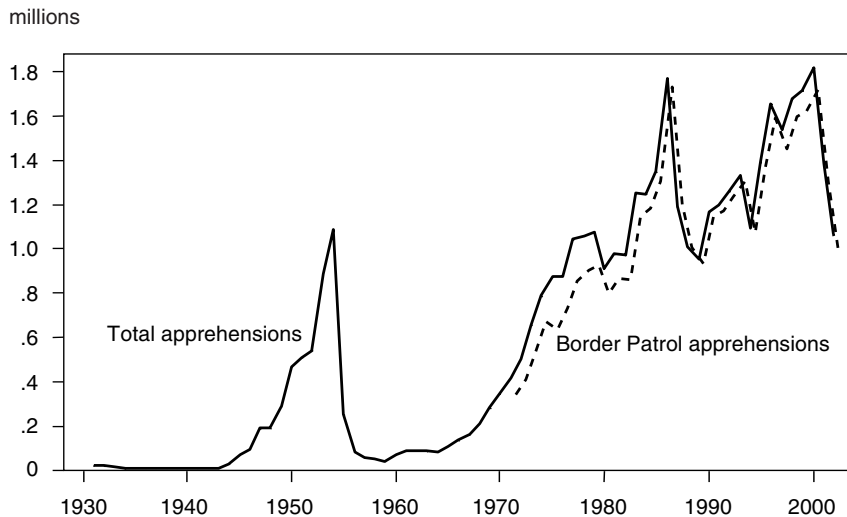
Current US policy on illegal immigration is based largely on the Immigration Reform and Control Act (IRCA) of 1986, which made it illegal to employ illegal aliens, mandated monitoring of employers, and expanded border enforcement.⁸ IRCA also offered amnesty to illegal aliens who had resided in the United States since before 1982. As a result of IRCA, in the late 1980s and early 1990s the United States granted permanent legal residence to 2.7 million individuals, 2 million of whom were Mexican nationals (Bureau of International Labor Affairs 1996) (figure 11.1). In 2003, the US Border Patrol apprehended 931,557 illegal aliens in the United States, which accounted for 89 percent of total apprehensions of illegal aliens by US immigration authorities (figure 11.3).⁹ Of these, 95 percent were Mexican nationals (DHS 2004). Over time, the Border Patrol has dra-

7. These figures are based on the US population census. The Census Bureau estimates that its population figures undercount illegal immigrants residing in the United States by 15 percent.

8. Before this act, it was illegal to “harbor” illegal aliens but not to employ them (Calavita 1992).

9. Apprehensions of illegal aliens overstate attempted illegal immigration, because the Border Patrol may capture a single individual multiple times in a given year

Figure 11.3 Apprehensions of illegal aliens in the United States, 1930–2000



Source: US Department of Homeland Security, Office of Immigration Statistics, *2003 Yearbook of Immigration Statistics*.

matically stepped up enforcement. Between 1980 and 2000, expenditure on border enforcement increased by 5.6 times in real terms (figure 11.4). Most of the Border Patrol's activities are concentrated in US cities that border Mexico, which has encouraged those attempting illegal entry through less populated—and more treacherous—desert and mountain regions of Arizona, California, and Texas. The end result has been an increase in deaths among illegal border crossers from 50 individuals a year in the early 1990s to 300 to 500 per year in the early 2000s (Cornelius 2001).

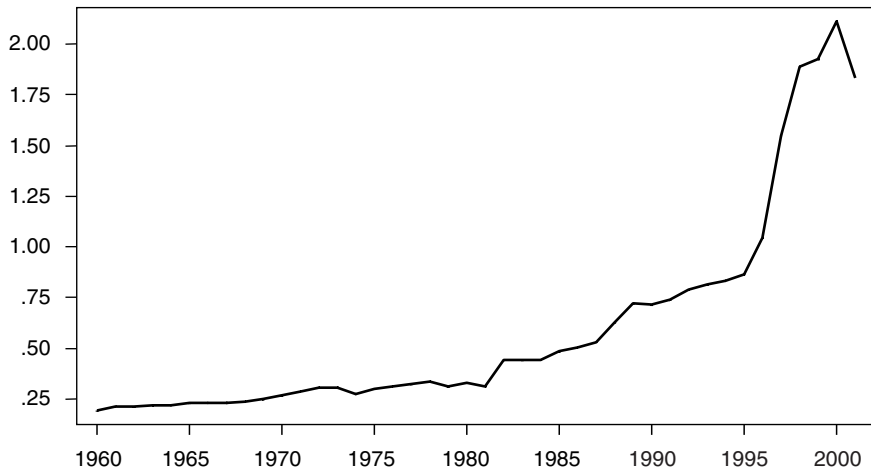
Profile of US Immigration

Immigration is changing the United States by making the population more ethnically diverse, by increasing the number of low-skilled workers in the labor force, and by expanding the population of individuals residing in the country illegally. In this section, I use data from the US Current Population Survey and US Census of Population and Housing to examine the characteristics of the US immigrant population. These data include both legal and illegal immigrants.

Recent immigrants come primarily from Asia and Latin America. Of immigrants entering the United States between 1990 and 2003, 58 percent came from Latin America and 26 percent from Asia (table 11.1). Mexico is

Figure 11.4 US government expenditure on immigration enforcement, 1960–2000

billions of 1998 dollars



Source: US Department of Justice, Budget Summary, various years, www.usdoj.gov/jmd/.

the most important source country for immigration, accounting for 34 percent of all immigrants arriving since 1990 and about 30 percent of the total US foreign-born population. In Mexico, this labor outflow has had a major effect on the country's population. In 2000, 8 percent of individuals born in Mexico resided in the United States (Chiquiar and Hanson 2004). The shift in US immigration toward Asia and Latin America has diminished Europe's role. Of the total number of immigrants who arrived before 1970, 41 percent were from Europe, but in 2003, only 12 percent of immigrants entering the country since 1990 came from the region.

For illegal immigration, the importance of Asia and Latin America as source regions is even greater. Between 1990 and 2000, the illegal population in the United States increased from 3.8 million to 8.9 million individuals.¹⁰ In 2000, Asia and Latin America accounted for 75 percent of the US illegal immigrant population, up from 69 percent in 1990. Mexico is by far the largest source country for illegal immigrants, accounting for 45 percent of the illegal population in 2000. In 2000, the share of the foreign-born population in the country illegally was (at least) 31 percent for all immigrants, 19 percent for immigrants from Asia, 36 percent for immigrants from Latin America, and 45 percent for immigrants from Mexico (Costanzo et al. 2001).

10. These figures are without adjusting for the undercount of illegal immigrants mentioned in footnote 8. Assuming a 15 percent undercount, the population of illegal immigrants would be 4.4 million in 1990 and 10.2 million in 2000.

Table 11.1 Source countries for US immigration, 2003

	Foreign-born population		Cohorts by arrival year			
	Level (millions)	Distribution (percent)	Pre- 1970	1970 to 1979	1980 to 1989	1990 or later
All countries	34.6	100.0	4.8	5.0	8.2	16.7
			Millions			
			4.8	5.0	8.2	16.7
			Percent of cohort			
Region of birth			35.3	47.6	56.4	57.6
Latin America	18.3	52.8	35.3	47.6	56.4	57.6
Asia	9.0	26.0	14.0	33.3	29.3	25.6
Europe	5.4	15.6	40.6	14.6	9.7	11.7
Other	1.9	5.5	10.1	4.5	4.6	5.0
Country of birth						
Mexico	10.2	29.6	16.0	26.4	30.1	34.1
Philippines	1.5	4.2	2.9	5.9	4.9	3.7
India	1.2	3.4	0.8	3.5	2.5	4.6
China	1.2	3.4	2.6	3.0	3.1	3.8
Germany	1.1	3.2	12.5	2.6	1.8	1.3
El Salvador	1.0	3.0	0.6	2.0	4.3	3.3
Cuba	1.0	2.9	7.9	2.9	2.2	1.9
Vietnam	.9	2.7	0.5	4.5	3.4	2.5
South Korea	.9	2.6	1.3	4.1	3.8	2.0
Canada	.9	2.5	8.2	2.2	1.4	1.4
Dominican Republic	.7	2.1	1.3	2.3	2.3	2.2

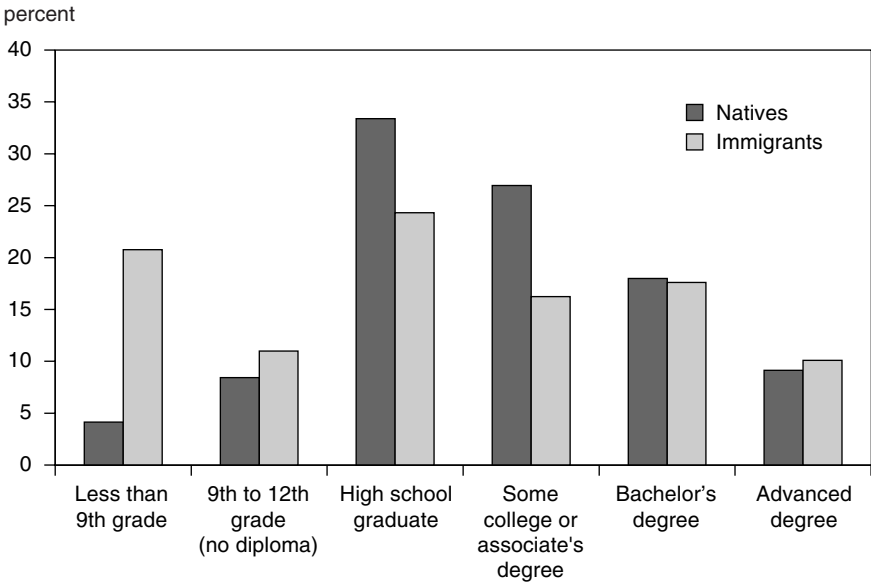
Source: Current Population Survey, March 2003.

Immigrants tend to settle in specific US regions. Upon arriving in the United States, immigrants tend to settle in the “gateway” states of California, Florida, Illinois, New Jersey, New York, and Texas.¹¹ In 2002, these six states were home to 67 percent of immigrants but only 40 percent of natives. California, on its own, is home to 28 percent of all immigrants (but only 12 percent of natives). Within the gateway states, most immigrants live in a few large cities. In 2003, 46 percent of immigrants, but only 17 percent of natives, lived in just five metropolitan areas: Los Angeles, New York, San Francisco, Miami, and Chicago. Illegal immigrants are also regionally concentrated. In 2000, 68 percent of illegal immigrants lived in gateway states, with 32 percent living in California alone (INS 2001).

Breaking with historical patterns, the states with the fastest growth in their immigrant populations during the 1990s were not gateway states but states located in the southeast (Georgia and North Carolina), Mountain West (Arizona, Colorado, and Nevada), and Great Plains (Nebraska and Kansas). These states also had high growth in native employment, suggesting that immigrants tend to move to regions where job growth is

11. In the 1960s and 1970s, Massachusetts and Pennsylvania were also gateway states for immigration.

Figure 11.5 Educational attainment of immigrants and natives, March 2003



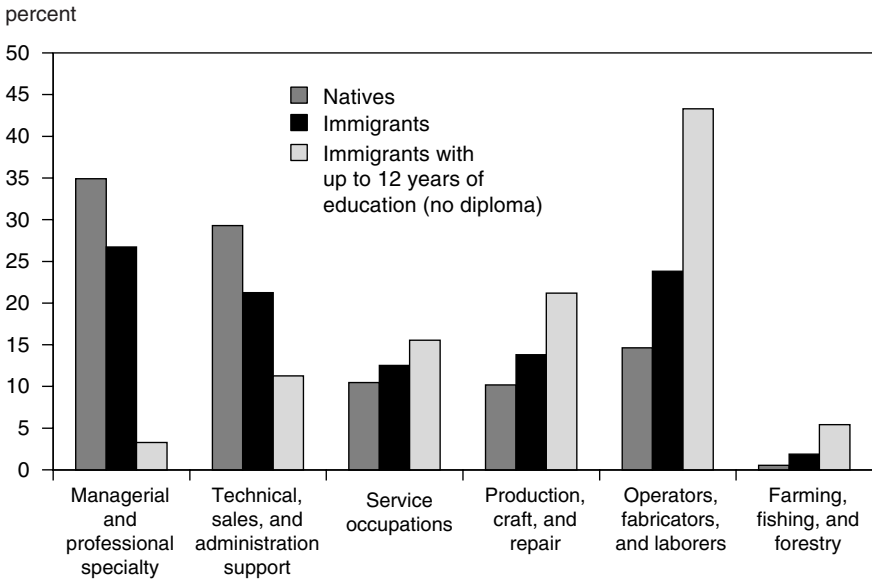
Source: Current Population Survey, March 2003.

strong.¹² The shift in population out of gateway states is even more notable among the illegal foreign-born population. Between 1990 and 2000, the share of illegal immigrants residing outside the six gateway states increased from 20 percent to 32 percent.

Immigrants are concentrated at the extremes of the skill distribution. They are much more likely than natives to have low levels of schooling. In 2003, 33 percent of immigrants 25 years and older had not completed the equivalent of a high-school education, compared with only 13 percent of US natives (figure 11.5). At the same time, immigrants are as likely as natives to be highly educated, with 27 percent of each group having completed a bachelor's degree (and a slightly higher fraction of immigrants having completed an advanced degree). Immigrants are underrepresented in the middle of the skill distribution, among workers with a high-school education or some college. This group accounts for 60 percent of natives but only 41 percent of immigrants. Borjas (1999a) shows that in the 1960s and 1970s, the educational attainment of immigrants was more sim-

12. The correlation between the log change in the share of the state population that is foreign-born and the log change in state native employment from 1990 to 2000 is highly statistically significant at 0.53.

Figure 11.6 Occupational distribution of immigrants and natives, March 2003

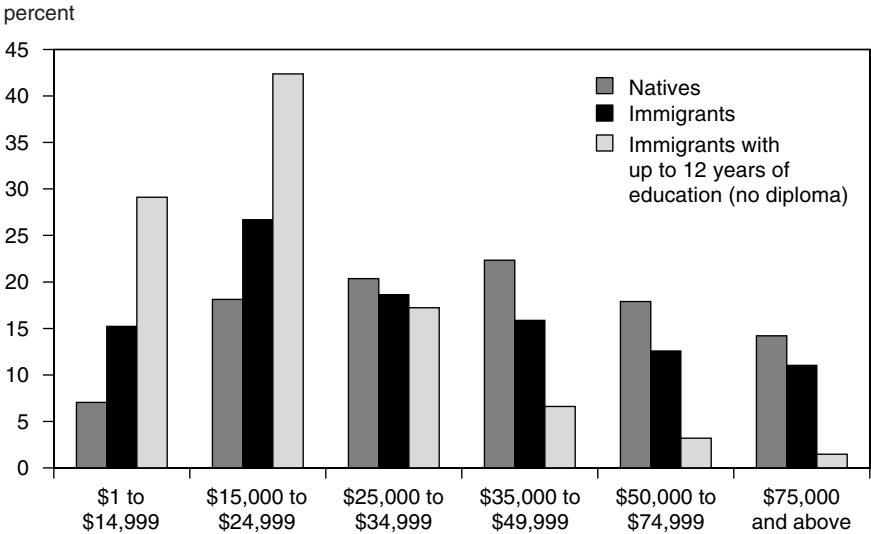


Source: Current Population Survey, March 2003.

ilar to that of US natives. The increasing skill gap between natives and immigrants appears to be a consequence of the shift in immigration from Europe—where schooling levels are similar to those in the United States—to Asia and Latin America, where schooling levels are well below those in the United States.

Immigrants earn less than US natives and tend to be employed in low-wage occupations. A low level of schooling and a lack of legal status confine many immigrants to low-wage jobs. In 2003, while 62 percent of natives were managers, professionals, or technical or administrative staff, only about 48 percent of immigrants were in one of these occupations (figure 11.6). And while only 25 percent of natives worked in low-paying manual labor or agricultural occupations, 43 percent of immigrants held one of these jobs. These occupational differences contribute to earnings differences between natives and immigrants. Among full-time, year-round workers in 2003, 45 percent of immigrants, but only 25 percent of natives, earned less than \$25,000 a year (figure 11.7). As is the case with the distribution of skills, immigrants are underrepresented in the middle of the earnings distribution. While 40 percent of native workers earned between \$35,000 and \$75,000 a year, only about 28 percent of immigrants fell into this category. Overall, median earnings for native workers were 30 percent

Figure 11.7 Yearly earnings distribution of immigrants and natives, March 2002



Source: Current Population Survey, March 2003.

higher than for immigrants.¹³ Borjas (1999b) shows that, as with the skills gap, the gap between native and immigrant earnings has grown over time.

Low skill levels and limited English-language ability contribute to immigrants' low labor market earnings. Borjas (1999b) finds that in 1990, lower levels of education and US labor market experience accounted for 38 percent of the wage differential between natives and immigrants. Bleakley and Chin (2004) estimate that lack of English-language proficiency substantially lowers an individual's earnings. Illegality also contributes to low wages, by confining immigrants to low-skill occupations or by giving US employers greater bargaining power in setting wages. Kossoudji and Cobb-Clark (2002) examine illegal immigrants who attained legal status as a result of the IRCA amnesty in the late 1980s and early 1990s. They find that the penalty for being an illegal immigrant in the 1980s was a wage that was 14 to 24 percent lower than for legal workers. Lower wages for illegal

13. These differences in earnings do not control for differences in annual hours worked or for differences in age, education, and other characteristics between immigrants and natives. Using data from 1990, Borjas (1999b) finds that controlling for differences in hours worked, natives earned 16 percent more than immigrants; and controlling also for age, education, and other observable characteristics, natives earned 10 percent more than immigrants. This pattern has changed markedly over time. In 1960, natives earned 4 percent *less* than immigrants (controlling for hours worked) and 1 percent *less* than immigrants (controlling for hours worked and other observable characteristics).

immigrants may be one reason that US employers oppose efforts to increase enforcement against illegal immigration (Calavita 1992).

Immigrants are more likely than natives to receive welfare benefits. As a consequence of lower earning power, immigrants are more likely than natives to live in poverty and to be eligible for means-tested entitlement programs. Further enhancing their eligibility is their tendency to have larger families, spreading their smaller incomes across more household members, and to have more children, giving them access to programs targeted to the young. Some entitlement programs—such as TANF (Temporary Assistance for Needy Families), SSI (supplemental security income), and general assistance—provide cash benefits, and other programs—such as Medicaid, food stamps, housing and energy subsidies, and school meal programs—provide in-kind benefits. In 1994, 25 percent of immigrant households and 15 percent of native households received some type of government assistance (table 11.2).¹⁴

In 1996, Congress undertook a major reform of federal welfare programs (Fix and Passel 2002). The reform mandated work requirements as a precondition to receive benefits, limited the life-time use of certain benefits, gave states more discretion over program design, and excluded noncitizens from access to many benefits. Congress substituted state entitlements to open-ended federal funds with block grants, leaving states with considerable autonomy over individual eligibility criteria. For immigrants who arrived before 1996, states have the option of whether to use their federal block grants to provide this group with TANF, Medicaid, and other benefits (table 11.3). For immigrants arriving after 1996, states may not use federal block grants to provide noncitizens with these benefits, but they are free to use other state funds to create substitute programs. After five years, immigrants may apply for citizenship, which guarantees their access to public benefits for which they meet standard eligibility criteria. For new immigrants, this in effect mandates a five-year waiting period for access to most benefits. States now vary considerably in the programs they offer to immigrants (Zimmerman and Tumlin 1999). Despite major changes in welfare policy, immigrants remain more likely than natives to receive benefits. In 2003, 24 percent of immigrants and 15 percent of natives received some type of government assistance. Continuing high immigrant usage of entitlement programs is primarily due to Medicaid. While immigrant usage of Medicaid remained stable between 1994 and 2003, there were sharp declines (overall and relative to natives) in immigrant usage of cash benefits and food stamps, suggesting welfare reform has had an impact on the type of government benefits that immigrants receive.

14. There is abundant academic literature that documents this pattern. See Borjas (1999a). Table 11.2 shows the fraction of households headed by an immigrant or headed by a native, in which at least one household member receives a specified government benefit. US-born children of immigrants who live with their parents are included in calculating the fraction of immigrant households using entitlement programs.

Table 11.2 Use of means-tested programs in 1994 and 2002 by householder's nativity and year of entry (percent)

Welfare program	Nativity of householder		Immigrants by year of arrival			
	Native	Immigrant	Pre-1970	1970-79	1980-89	Since 1990
1994						
Public assistance ^a	4.5	8.1	3.6	8.3	11.1	12.7
SSI	3.9	6.2	7.5	6.0	5.4	5.3
Food stamps	8.4	13.7	8.5	14.4	17.9	17.4
Medicaid	13.3	22.4	16.0	22.4	27.9	27.7
Any of the above	15.3	24.6	17.8	24.9	30.4	29.7
2002						
Public assistance ^a	1.6	2.3	1.2	1.9	2.9	2.6
SSI	3.6	5.0	7.7	6.3	5.0	2.8
Food stamps	5.5	6.5	5.8	5.7	8.0	6.3
Medicaid	13.6	23.2	18.5	21.6	27.3	23.7
Any of the above	14.9	24.2	19.4	22.5	28.3	24.7

SSI = supplemental security income

a. Includes Aid to Families with Dependent Children (for 1994), Temporary Assistance for Needy Families (for 2002), and general assistance programs.

Note: Immigrants and native households defined by nativity of household head. Year of entry based on household head.

Source: Current Population Survey, March 1995 and March 2003.

While welfare reform excludes illegal immigrants from receiving government benefits, US courts have ruled that it is against the law to deny illegal immigrants emergency medical services. This ruling puts states with large illegal immigrant populations in a quandary. Without access to public health care, many illegal immigrants use emergency medical services for routine health problems or delay seeking medical care until their health problems become acute. The expense of providing emergency medical care to the illegal population has led some states, including California and Texas, to provide illegal immigrants with state-funded preventive health care, as a means of holding down costs.¹⁵ It appears some states have found that the prevalence of illegal immigration makes certain aspects of welfare reform inefficient.

Benefits and Costs of Immigration

Immigration increases the incomes of US residents by helping utilize domestic resources more efficiently. These benefits, however, are not shared equally. Immigration redistributes income away from factors that compete with immigrants in the labor market. This redistribution creates

15. See Clay Robison, "Senate approves care for illegal immigrants," *Houston Chronicle*, May 5, 2003, A19.

Table 11.3 Eligibility of immigrants for public benefits

	SSI	Food stamps	Medicaid	TANF	Other federal means-tested benefits	State/local public benefits
Qualified immigrants arriving before August 23, 1996						
Legal permanent residents	Yes	No	State option	State option	State option	State option
Asylees, refugees ^a	Eligible for first 7 years	Eligible for first 5 years	Eligible for first 7 years	Eligible for first 5 years	Eligible for first 5 years	Eligible for first 5 years
Qualified immigrants arriving after August 23, 1996						
Legal permanent residents	No	No	Barred for first 5 years; state option afterward	Barred for first 5 years; state option afterward	Barred for first 5 years; state option afterward	State option
Asylees, refugees	Eligible for first 7 years	Eligible for first 5 years	Eligible for first 7 years	Eligible for first 5 years	Eligible for first 5 years	Eligible for first 5 years
Unqualified immigrants						
Illegal immigrants	No	No	Emergency services only	No	No ^b	No ^c
PRUCOL immigrants	No ^d	No	Emergency services only	No	No	No ^c

PRUCOL = persons residing under cover of law

SSI = supplemental security income

TANF = Temporary Assistance for Needy Families program

a. Cuban and Haitian entrants, Amerasians, and aliens granted withholding of deportation are also included in this group.

b. States have the option to provide WIC (special supplemental nutrition program for women, infants, and children) to unqualified immigrants.

c. Selected programs are exempted, including short-term noncash relief, immunizations, testing and treatment for communicable diseases, and selected assistance from community programs.

d. PRUCOL immigrants receiving SSI as of August 22, 1996, continued to be eligible until September 30, 1998.

Source: Boeri, Hanson, and McCormick (2002).

political opposition to immigration. A second source of opposition to immigration comes from the costs that immigration imposes on resident taxpayers. If immigrants receive more in government benefits than they pay in taxes, then immigration imposes a net fiscal burden on US natives.

Immigration, much like international trade and international capital flows, tends to raise global welfare. Wage differences between countries reflect economic inefficiencies associated with an oversupply of labor in low-wage countries and an undersupply of labor in high-wage countries. By moving labor from low-wage to high-wage countries, immigration helps raise global productivity. These global efficiency gains are shared by immigrants and by some US factor owners.

Benefits

Immigration generates a surplus in the form of extra income to domestic factors of production. By increasing the supply of labor, immigration raises the productivity of factors that are complementary to labor. More workers allow US capital, land, and natural resources to be exploited more efficiently. These gains in productivity result in income gains to owners of these factors. It is no surprise, then, that US business interests support immigration.¹⁶ But increasing the supply of labor also drives down wages for US workers. Borjas (2003) estimates that over 1980–2000, immigration contributed to a decrease in average US wages of 3 percent. This estimate accounts for the total change in the US labor force due to immigration, including both legal and illegal sources. Since immigration is concentrated among the low skilled, the workers most likely to be adversely affected are low-skilled natives. Over the 1980–2000 period, wages of native workers without a high school degree fell by 9 percent as a result of immigration.¹⁷ Consistent with these effects, Scheve and Slaughter (2001b) find that opposition to immigration in the United States is most intense among native workers with low schooling levels (less than a high school education).

To calculate the net change in national income associated with immigration, I sum up the income changes associated with immigration for all domestic factors of production. Using a simple model of the US economy,¹⁸ the immigration surplus takes a very tractable form:

16. The National Association of Manufacturers, www.nam.org, states, "Foreign nationals have made enormous contributions to US companies, our economy and society as a whole. To continue our economic and technological preeminence we need to ensure that we have access to the talent we need to lead and compete."

17. Borjas (2003) also estimates that over the 1980–2000 period, immigration reduced wages for college graduates by 5 percent, wages for high school graduates by 3 percent, and wages for those with some college by a negligible amount.

18. This model assumes there is one good and two factors of production. It is straightforward to extend this model to allow for a more complicated environment.

Immigration surplus as a percent of GDP = $-0.5 \times (\text{percent change in wages due to immigration}) \times (\text{percent change in labor force due to immigration}) \times (\text{labor share of national income})$

Applying this formula to results in Borjas (2003) for 1980–2000, a crude calculation of the immigration surplus for the US economy in 2000 would be

$$-0.5 \times (-3.2 \text{ percent}) \times (11 \text{ percent}) \times (0.70) = 0.12 \text{ percent}$$

A rough estimate, then, is that immigration raises US GDP by slightly more than one-tenth of a percent. Borjas (1999b) produces more sophisticated estimates of the immigration surplus by allowing for labor of different skill types and by allowing for varying effects of immigration on wages. However, no reasonable alternative estimate would differ from my crude estimate by more than a factor of two. The gain in US income from immigration simply isn't very large.

Since the immigration surplus is larger when the wage effects are larger, the gains to immigration are greater when immigration has a larger impact on the distribution of income. A country gains most from immigration when it admits labor whose skills are scarcest. In this case, immigration has a larger negative impact on the wages of the affected labor group but also yields a larger gain in national income. Holding constant the level of immigration, the United States could increase the immigration surplus by concentrating immigration among skill groups that are in relatively short supply. For the United States, this would mean concentrating immigration even more at the extremes of the skill distribution. Very highly skilled workers are in relatively short supply in the United States, as they are everywhere. It is perhaps less apparent that very low-skilled workers are in increasingly short supply. The share of employed native-born US workers with less than a high school education fell from 50 percent in 1960 to 8 percent in 2000 and is expected to continue to decline (Borjas 1999a). Adding workers in the middle of the skill distribution, which for the United States includes high school through college graduates, would produce a relatively small immigration surplus.

Two factors mitigate the impact of immigration on wages and reduce the potential immigration surplus. One is that the supply of capital in the US economy is not fixed. Immigration raises the productivity of capital, creating incentives for further investment (either by domestic residents or by foreigners). More investment increases the capital stock, raising the productivity of labor and thereby offsetting some of the wage losses associated with immigration. An elastic supply of capital (but one that is less than perfectly elastic) means that immigration has only a modest impact on wages. A second factor that helps mitigate the wage impact of immigration is international trade. Immigration of low-skilled labor reduces US demand for imports from low-wage countries. Reduced imports from low-wage countries increase US domestic demand for low-wage labor, partially absorbing the influx of foreign labor.

Our estimate of the immigration surplus ignores many factors and so should be treated with caution. For instance, during World War II, the immigration of scientists from Europe helped spur US advancements in physics, chemistry, and other fields (Fermi 1971). After the war, these advancements appeared to help raise the pace of innovation in US industry. Such dynamic effects of immigration are plausible but are very hard to gauge. If these effects are important, static estimates of the immigration surplus will tend to understate immigration's true economic impact.

An additional potential benefit from immigration is that it may help the government manage unfunded pension liabilities. Since Social Security operates on a pay-as-you-go basis, the program generates a surplus in years when the population of working Americans is large relative to the population of retired Americans and a deficit in years when the population of retirees is relatively large. Currently, contributions to Social Security exceed payments out of the system, generating a surplus that helps finance US federal budget deficits. With the aging of the US population, this surplus will turn into a small deficit around 2020 and a larger deficit some years later. By increasing the population of younger workers, immigration has the potential to help maintain the solvency of the US Social Security system (Auerbach and Oreopoulos 1999; Fehr, Jokisch, and Kotlikoff 2004).¹⁹ Of course, this benefit applies only if immigrants pay more in taxes than they absorb in public services. If immigrants are a net drain on government revenues, further immigration worsens the US fiscal situation.

Another group that benefits from international migration is the immigrants themselves. Chiquiar and Hanson (2004) estimate that in 1990 the gain in wages for Mexican immigrants from moving to the United States was \$2.50 to \$4.00 an hour, adjusted for cost-of-living differences. This amounts to an approximate annual gain in real income of \$5,000 to \$8,000 a year, or 1.5 to 2 times per capita GDP in Mexico. For the migrant, this income gain is larger than the effect of any conceivable development policy. Even the most optimistic estimates of the impact of the North American Free Trade Agreement (NAFTA) on an individual worker in Mexico would be a small fraction of the gain associated with moving to the United States.²⁰

The counterpart to an immigration surplus in host countries is an emigration loss in countries that send migrants abroad. By exporting labor, sending countries suffer a loss in GDP associated with less efficient utilization of their resources.²¹ As with the immigration surplus, the emigra-

19. Clearly, this benefit is conceptually distinct from the immigration surplus, since it arises only due to existing tax distortions in the US economy.

20. The upper end of the estimated income gain to Mexico from NAFTA was 5 percent of GDP (Brown, Deardorff, and Stern 1992).

21. In theory, the sum of the immigration surplus in receiving countries and the income gain to migrants exceeds the emigration loss in sending countries.

tion loss is proportional to the emigration-induced change in wages. For Mexico, Mishra (2003) estimates that over 1970–2000, emigration increased average wages in Mexico by 8 percent. By 2000, the number of Mexican emigrants in the United States was equal to 16 percent of the labor force in Mexico. Based on these figures, the emigration loss for Mexico in 2000 would be 0.5 percent of GDP. However, in Mexico's case, the loss is more than offset by income that emigrants remit to family members in Mexico, which in 2000 was 1.1 percent of GDP and in 2002 was 1.5 percent of GDP. On net, residents of Mexico—those who do not migrate abroad—appear to gain from emigration, with much of the gain presumably going to the family members of migrants, who are the primary recipients of remittances.

In other countries, remittances are an even larger share of economic activity, exceeding 10 percent of GDP in 2003 in the Dominican Republic, El Salvador, Haiti, Honduras, Jamaica, and Nicaragua (IDB 2004). The Inter-American Development Bank finds that in 2003 in El Salvador, Guatemala, Honduras, and Mexico over 14 percent of adults received remittances from the United States. In that year, Latin American immigrants in the United States sent a total of \$31 billion to their home countries, amounting to 1.4 percent of the region's GDP.

For the United States, the impact of immigration policy on Mexico and Latin America should not be ignored. Due to shared geography and history, the United States and Mexico have a special relationship. The opportunity to emigrate to the United States gives Mexico a safety valve, which may have helped the country avert domestic turmoil during the severe macroeconomic instability the country experienced in the 1980s and 1990s. Attempted illegal entry at the US-Mexico border increases sharply following declines in Mexico's real wage (Hanson and Spilimbergo 1999). After Mexico's currency crises in 1982, 1987, and 1995, each of which involved major economic contractions, there was a surge in illegal immigration from Mexico. In the absence of the opportunity to migrate to the United States, these periods of economic crisis would likely have involved even higher levels of unemployment and larger declines in real wages. A richer and more stable Mexico is surely in the US interest.

Beyond the economic consequences of immigration, there have long been complaints that immigration dilutes American cultural identity and weakens the country's social fabric (Daniels 2003, Tichenor 2002). In his 1996 and 2000 presidential bids, Patrick Buchanan attempted to tap into public discontent over bilingual education and increasing ethnic diversity in the United States. His arguments are mirrored in Samuel Huntington's (2004) influential critique of immigration from Latin America. Huntington claims that the values of Latino immigrants conflict with those of mainstream America, putting US culture at risk. What is unconvincing about this argument is that when one examines the behavior of Latino immigrants and their descendents in terms of language, religion, education, and employment they display genuinely American attributes. The large

majority of children of Latino immigrants, including those who arrived in the United States at a young age, speak English very well (Bleakley and Chin 2004). Second-generation Mexican-Americans complete 42 percent more schooling than their immigrant parents (Grogger and Trejo 2002). Rates of labor-force participation and of self-employment are higher for Mexican immigrants than for the US population as a whole. And the commitment of the Latino population to church, family, and community appears to be very strong. While the contribution of immigration to ethnic diversity in the United States is undeniable, it is hard to see why greater diversity, on its own, is harmful.

Costs

In a world without distortions, no costs would be associated with immigration. Clearly, we are far from such a world. US tax and spending policies distort individual decisions about how much to work, how much to save, and how much to invest. Immigration, by admitting large numbers of low-skilled individuals, exacerbates inefficiencies associated with the country's welfare system. Also, population growth—whether due to immigration or to other sources—worsens distortions associated with poorly defined property rights over air, water, highways, and common areas. More people mean more pollution and more congestion.

If immigrants pay more in taxes than they receive in government benefits, then immigration generates a net fiscal transfer to native taxpayers.²² The total impact of immigration on US residents—the sum of the immigration surplus and the net fiscal transfer from immigrants—would be unambiguously positive. On the other hand, if immigrants pay less in taxes than they receive in government benefits, then immigration generates a net fiscal burden on native taxpayers—natives would in effect be making an income transfer to immigrants. Paying for this fiscal transfer would require some combination of tax increases on natives, reductions in government benefits to natives, and increased borrowing from future

22. It is a common misperception that illegal immigrants do not contribute to tax revenues. Illegal immigrants pay sales taxes on their consumption purchases and property taxes on dwellings they own or rent. In addition, many illegal immigrants contribute to Social Security and to federal income taxes. Evidence of this includes the recent large increase in Social Security contributions with invalid numbers. As of 1986, US law requires employers to record the Social Security number and visa information of each immigrant employee. In response, many illegal immigrants present employers with fake Social Security cards, which tend to have invalid numbers. Between 1986 and 2000, annual Social Security contributions with invalid numbers soared from \$7 billion to \$49 billion (Social Security Administration 2003). While the Social Security Administration does not immediately release these funds, they are eventually rolled into administration general funds (and in the meantime represent a zero-interest-rate loan).

generations (by issuing government debt). In this case, the total impact of immigration on US residents would be positive only if the immigration surplus exceeded the fiscal transfer made to immigrants.

The National Research Council (NRC) recently conducted two detailed case studies of the fiscal impacts of immigration, one on New Jersey and another on California (Smith and Edmonston 1997). Both states have relatively large immigrant populations. In 2000, the share of the adult population that is foreign-born was 34 percent in California and 24 percent in New Jersey, compared with 15 percent in the nation as a whole. However, the two states have immigrant populations with quite different skill profiles and patterns of welfare usage. In 2000, the share of immigrant households headed by someone with less than a high school education was 34 percent in California and 29 percent in the nation as a whole, but only 23 percent in New Jersey. Similarly, the share of immigrant households receiving cash benefits from welfare programs was 13 percent in California and 10 percent in the nation as a whole, but only 8 percent in New Jersey. These differences in welfare uptake are only partly due to immigrants in California being less skilled. California also appears to be more generous in the benefits it offers. While the less-skilled native population is larger in New Jersey (high school dropouts are 11 percent of New Jersey's native adult population and 8 percent of California's), native welfare usage is still greater in California. The share of native households receiving cash benefits is 8 percent in California and 7 percent in the nation as a whole, but only 5 percent in New Jersey.

Based on federal, state, and local government expenditures and tax receipts, the NRC estimates that the short-run fiscal impact of immigration is negative in both New Jersey and California.²³ In New Jersey, using data for 1989–90, immigrant households received an average net fiscal transfer from natives of \$1,484, or 2.5 percent of average state immigrant household income.²⁴ Spread among the more numerous state native population, this transfer amounted to an average net fiscal burden of \$232 per native household, or 0.4 percent of average state native household income. In California, using data for 1994–95, immigrant households received an average net fiscal transfer of \$3,463, or 9.1 percent of average immigrant household income, which resulted in an average fiscal burden on native households of \$1,178, or 2.3 percent of average native household income.

Two factors explain why natives make net fiscal transfers to immigrants: (1) immigrant households are larger with more children, leading

23. The study included as many federal, state, and local government services and sources of tax revenue on which it was feasible to collect data. See Smith and Edmonston (1997).

24. All figures based on the NRC study are in 1996 dollars.

them to make greater use of public education, and (2) immigrant households earn lower incomes, leading them to make greater use of welfare programs and lower contributions to taxes.

It is apparent from the NRC study that variations in welfare policies and immigrant characteristics yield fiscal consequences that vary widely across US states. Native taxpayers in California, with its less-skilled immigrant population and high immigrant uptake of welfare, make relatively large fiscal transfers to immigrant households. Within the United States, it appears the fiscal costs of immigration are borne quite unevenly. States with poorer immigrant populations and more generous policies are likely to shoulder a much larger share of the fiscal burden associated with immigration. Further concentrating the distributional consequences of immigration, California and some other high-immigration states have progressive tax systems, in which high-income taxpayers account for a disproportionate share of tax revenues. Thus, higher-income taxpayers in high-immigration states are likely to pay much of the fiscal cost of immigration.

Public opinion is consistent with this reasoning. High-income individuals in states that provide generous benefits to immigrants appear to be acutely aware of the fiscal costs they bear. Nationally, more-educated individuals tend to be more favorable toward immigration. However, their support varies markedly across US states. The highly educated (college education or advanced degree) are most opposed to immigration in states that have both large immigrant populations and high immigrant uptake of welfare (Hanson, Scheve, and Slaughter 2004). In California, for instance, the anti-immigration sentiments of high-income voters were important in the passage of Proposition 187 in 1994, a ballot measure that denied state benefits to illegal immigrants (which the courts later overturned).

Estimated fiscal transfers associated with immigration are due entirely to transfers at the state and local levels. Immigration has a decidedly negative impact on state and local public finances. But at the federal level, immigrants make a positive net fiscal contribution. This is because national defense accounts for a large fraction of the federal benefits immigrants receive. As a public good, the cost of national defense is unaffected by immigration. Adding taxpayers through immigration lowers the effective amount the federal government must charge native taxpayers to cover defense outlays.

For the nation as a whole, the NRC estimates that immigration imposes a short-run burden on the average native household of \$166 to \$226, or 0.20 percent to 0.25 percent of US GDP in 1995. Comparing the average of these two estimates with the immigration surplus of 0.12 percent of GDP, a back-of-the-envelope calculation suggests that in the short run, immigration reduces the income of US residents by about 0.1 percent of GDP.

This estimate is only meant to be suggestive. Going from a short-run to a long-run estimate of the fiscal cost of immigration can change the results

dramatically. Immigrants are relatively young and far from their peak earning and taxpaying years. As immigrants age, their net fiscal contribution increases. Also, they have children who are likely to obtain more education and to pay more in taxes than their parents. The NRC estimates that the average immigrant admitted in 1990 would produce a net fiscal contribution of \$80,000 over the next 300 years (in present discounted value terms). This contribution depends crucially on the immigrant's skill level. The long-run fiscal contribution is negative for low-skilled immigrants (less than a high school education) and positive for higher-skilled immigrants (more than a high school education).

Going 300 years forward obviously requires very strong assumptions about the future economic environment. Even for the average immigrant, the annual net fiscal contribution is negative for the first 25 years after arriving in the United States. The long-run estimate rests on the assumption that the federal government will later raise taxes to bring the federal budget into balance. If this doesn't happen, the long-run fiscal contribution of the average immigrant would be negative.²⁵ Under any scenario, the long-run fiscal impact of immigration on state and local governments is negative. Thus, in both the short run and the long run state and local governments (and the taxpayers that support them) pick up much of the fiscal tab associated with immigration.

This discussion leaves two perspectives on the fiscal costs of immigration. In the short run, the fiscal impact of immigration appears to be negative. In the long run, the fiscal impact may be positive or negative, depending on how federal taxes and spending change in the future. This leaves uncertainty about whether the total benefits of immigration exceed the total costs. However, it is clear that these benefits and costs are distributed quite unevenly. Capital owners, land owners, and other employers appear to capture many of the benefits associated with immigration (and also benefit from the lower wages they end up paying native workers). Taxpayers in high-immigration states are likely to shoulder immigration's fiscal costs.

When it comes to the politics of immigration, the short-run impacts may matter more than those in the long run. It is probably reasonable to expect many voters to put more weight on the negative fiscal contribution immigrants make during their first 25 years in the country and less weight on the positive fiscal contribution they make 100 years in the future. Those who place more weight on the short-run consequences of immigration are likely to conclude that immigration makes the United States worse off.

25. See Borjas (1999a) for a discussion of this issue.

Reforming US Immigration Policy

The short-run impact of immigration on the United States appears to be on the order of 0.1 percent of US GDP. Whether negative (if one takes a shorter-run view) or positive (if one takes a longer-run view), the effect of immigration is far less significant than the political debate surrounding the issue would suggest.

While the gains or losses associated with changing the level of immigration appear to be small, there are clear gains associated with *changing how the United States manages immigration*. First, those that benefit most from immigration bear few of its costs. Employers capture the immigration surplus, but taxpayers in high-immigration states bear the fiscal burden. The United States could shift the fiscal cost of immigration from taxpayers to employers and to immigrants by restructuring immigrant access to public benefits. Second, current policy in effect allows one-third of immigration to be illegal. Being illegal prevents immigrants from moving freely between jobs, which keeps them poor and lowers the potential immigration surplus. Illegality also creates an underclass of residents with little prospect of participating in US political life. The United States could diminish its reliance on illegal immigrants by expanding temporary immigration and by requiring employers to verify the eligibility of workers they hire. Third, current US policy, by setting the level of immigration without regard to US economic conditions, yields a small immigration surplus. The United States could raise the surplus by concentrating immigration among workers whose skills are in scarce supply and by adjusting admission levels in response to US business cycle conditions. Achieving these objectives would require changing the rights granted to immigrants, enforcement against illegal immigration, and the level and composition of immigration.

Immigrant Rights

Currently, legal immigrants gain permanent legal residence upon entering the country.²⁶ This gives them access to some public benefits on arrival and to others after five years (when they become eligible to naturalize). One way to lower the fiscal cost of immigration would be to phase in more slowly an immigrant's access to public benefits. This could be done by having all adult immigrants enter on a temporary work visa (of, say, three years), which would give them rights to certain benefits (public education, participation in the social security system) but not to others (pub-

26. Obviously, this doesn't apply to those on short-term entry visas.

lic assistance, food stamps, public housing, and Medicaid). Satisfying the terms of the temporary work visa would lead to automatic renewal and, after a specified number of renewals, to permanent residence. After five years as a permanent resident, an individual could apply for citizenship, as is the case currently. Violating the terms of the temporary work visa—by remaining unemployed for a prolonged period, by using prohibited forms of public assistance, or by committing a serious crime—would be cause for denying renewal of the visa and would require the immigrant to return home. Such a plan would tie admission to the United States to work, and, relative to the current policy, would reduce the short- and medium-run fiscal burden associated with immigration.

This proposal would take welfare reform one step further. By requiring new immigrants to complete several terms as temporary immigrants, it would increase the amount of time during which immigrants lack access to full benefits. It would also make permanent residence conditional on behavior during a probationary phase. Immigrant advocates often criticize guest worker programs for relegating immigrants to second-class status. As distinct from current guest worker programs, the proposed approach would guarantee immigrants a green card, conditional on their complying with the terms of their temporary visas. Labor unions also complain about guest worker programs, citing their lack of labor rights. It would be entirely feasible to grant temporary immigrants full labor protections, including collective bargaining, a federally mandated minimum wage, unemployment insurance, and mandated health and safety standards. The only difference between temporary immigrants and other workers is that the former would not have access to the same entitlement programs.

Temporary work visas would offer a solution for how to deal with the 10 million illegal immigrants currently living in the country. A special pool of visas could be created for illegal immigrants residing in the United States. The granting of these visas would amount to a limited amnesty for these immigrants.²⁷ There is likely to be vehement opposition to an amnesty to illegal immigrants. However, it is inconceivable that the United States could reduce the illegal population without an amnesty of some sort. An alternative policy, mass deportations of illegal immigrants, would require a police effort on a scale never before seen in this country. Whatever the opposition to an amnesty, opposition to mass deportations would be more intense. One aspect of a limited amnesty that might make it politically palatable is that it would not lead immediately to a green card but to a probationary period on a temporary visa. Former illegal immigrants would have to earn permanent residence by demonstrating their commitment to being legally employed. Another objection to an amnesty is that it would raise the incentive for future illegal immigration. To avoid

27. This approach parallels President Bush's recent plan, although the Bush proposal does not specify how temporary legal immigrants would progress to permanent residence.

perverse incentive effects, the United States would also have to change the way it enforces measures against illegal entry.

Enforcement

Current US enforcement policy, which has been in place since the early 1990s, involves heavy patrols in large cities along the US-Mexico border, light patrols in unpopulated zones along the US-Mexico border, and minimal presence in the US interior (Boeri, Hanson, and McCormick 2002). Immigration authorities devote few resources to investigating or monitoring employers that hire illegal immigrants (GAO 2002). Of the 955,000 apprehensions the Border Patrol made in 2002, fewer than 5,000 occurred at US farms or other worksites (the rest occurred at or near the US-Mexico border). Few employers face penalties for breaking the law. The number of employers fined for hiring illegal immigrants declined from 799 in 1993 to 14 in 2000, with the number of fines above \$50,000 falling from 30 in 1993 to 7 in 1997 and to 0 in 2000. The result of this policy is that once in the United States, illegal immigrants face little risk of apprehension or deportation. Overall, US enforcement policy is ineffective. After the United States dramatically increased enforcement expenditures in the early 1990s (figure 11.4), illegal immigration actually *increased*.

What makes current efforts at enforcement difficult is that employers have plausible deniability. They are required to ask employees only for legal documents (e.g., a social security card and a green card). As long as these appear genuine, employers are largely free from legal responsibility. Since employers do not have to verify the authenticity of the documents, this check serves only to weed out obvious forgeries.

An alternative approach would be to create the capacity for automatic verification of an employee's legal status. Suppose employers were required to verify the authenticity of social security numbers with the Social Security Administration (SSA). If the SSA were to create an electronic database to which employers could submit electronic requests, the verification process would be immediate. Suppose also that each immigrant was required to have a social security number and to record this number with the Department of Homeland Security (DHS). If the SSA and the DHS were to cross-list information with one another, the DHS could easily verify that all legal immigrants had valid social security numbers. With these verification processes in place, employers would no longer have plausible deniability regarding the employment of illegal immigrants. The only way they could hire illegal immigrants would be by keeping them off their official payrolls, in which case they would be overtly breaking the law.

These procedures would make audits of employers by immigration authorities more transparent. Any employer failing to verify the social secu-

rity status of an employee (on which there would be an electronic record) would be guilty of an infraction. A modest increase in interior enforcement could perhaps greatly increase its effectiveness. In addition, the DHS would have a record of employment for each temporary legal immigrant, which would be useful for evaluating applications for renewal of work visas. Any immigrant failing to be employed for a sufficient fraction of the visa period (again, on which there would be an electronic record) would be ineligible for renewal of a temporary visa or for gaining a green card.²⁸

Level of Immigration

Congress sets the level of immigration without regard to US economic conditions. The potential immigration surplus is greater when the United States is in a period of economic expansion than when the country is in a period of contraction. A simple alternative would be to create a flexible cap that would *on average* achieve the mandated admission level but that would be higher in years when US GDP growth was high and lower in years when US GDP growth was low. A flexible cap would complement converting legal immigration to renewable temporary work visas. Each year, there would be flows out of temporary immigrant status, as individuals either completed the required number of terms on their visas and obtained permanent residence or violated the terms of their visas and had them revoked. Outflows would create openings for new temporary immigrants, with net total admissions determined by the flexible cap.

Admission quotas for legal immigrants obviously don't apply to illegal immigrants. The United States implicitly sets the level of illegal immigration by choosing how many legal immigrants to admit and how intensively to enforce US borders and workplaces. Given current US policy, about 400,000 new illegal immigrants enter the country each year. Illegal immigration happens in part because US employers value the services illegal workers provide. US immigration authorities appear to accommodate the needs of employers by lowering enforcement against illegal immigration during periods in which labor demand in labor-intensive industries is strong (Hanson and Spilimbergo 2001). Reducing the level of illegal immigration would reduce the immigration surplus US employers capture. An alternative is simply to legalize the illegal inflow. Holding constant the level of immigration, the immigration surplus would be larger for a workforce of legal immigrants than for a workforce of illegal immigrants. The wage penalty associated with being an illegal immigrant appears to be due largely to illegal workers being unable to take advan-

28. Immediate verification of an employee's legal status would not increase information burdens on either employees or employers. Currently, employers must complete and retain I-9 identification verification forms on all employees. This proposal would only make this process electronic.

tage of new job opportunities (Kossoudji and Cobb-Clark 2002). The relative immobility of illegal workers makes them less productive, reducing the surplus they generate.

One way to legalize the inflow of illegal workers would be to offer a number of temporary work visas equal to the current level of legal plus illegal immigration. This would expand *legal immigration* to about 1.1 million admissions a year, but would leave *total immigration* unchanged. Again, for this policy to make any sense it must be combined with enforcement against illegal immigration. One issue in implementing this program would be whether to admit the immediate family members of temporary visa holders. Currently, the United States allows immediate family members to join temporary visa holders on longer-term visas (such as the H-1B) but not on shorter-term visas (such as the H-2A or H-2B). These family members are not allowed to work in the United States and are ineligible to receive most types of social assistance. To keep with this precedent, one would admit immediate family members along with temporary visa holders but place strict limits on their ability to work or to draw public benefits.

Current temporary immigration programs are far too small to address illegal immigration. In a typical year, fewer than 70,000 temporary visas are granted to seasonal laborers in agricultural occupations (H-2A program) and nonagricultural occupations (H-2B program). These visas are nonrenewable and amount to a one-time increase in the stock of immigrants that occurred when the visa program was created. Each year, the stock turns over, as entering temporary immigrants replace exiting ones.²⁹

Composition of Immigration

Current immigration policy allocates 480,000 entry slots to family members of US citizens and US legal residents, 140,000 entry slots to employer-sponsored immigration, and 55,000 slots to other categories. Converting these slots to renewable temporary work visas³⁰ and expanding the number of visas to accommodate illegal immigrants would change the composition of US legal immigration. New legal admissions would rise to about 1.1 million individuals, about 45 percent of whom would be sponsored by family members and about 50 percent of whom would be sponsored by employers. This would move the US system closer to that of Canada, which reserves half of its entry slots for employment-based immigration. As dis-

29. President Bush's proposal to create 250,000 new temporary work visas, which would be renewable once, would also amount to a small one-time increase in the immigrant stock (which is far less than the annual inflow of new immigrants). Presumably, to be effective, the Bush policy would require greater enforcement against illegal entry.

30. Work visas would apply to adult immigrants. Some visas could be reserved for minors and senior citizens.

tinct from Canada, all adult immigrants would have to comply with the terms of the temporary work visa in order to graduate to permanent legal residence.

To increase the immigration surplus, the United States should admit workers who are in relatively scarce supply. One way to achieve this would be for US employers to post electronically jobs that they desire to fill with temporary immigrants. These postings would reflect the excess demand for labor in the United States. Occupations with the largest number of postings would indicate where excess demand for labor was the greatest. Foreigners could apply electronically for job openings (either to employers or to brokers who would match immigrants to employers). The number of foreign applicants per job listing would indicate the excess supply of foreign labor. Occupations in which the number of applicants exceeds the number of job postings (which could be most occupations) would indicate the existence of queues for jobs in the United States. The length of these electronic job queues by occupation would indicate to immigration authorities where the gains to immigration would be the greatest and so where to concentrate the allocation of temporary work visas.

This approach would be likely to maintain immigration of low-skilled workers. These workers are in short supply in the United States and in abundant supply abroad. In particular, they are in abundant supply in Mexico, where workers can migrate to the United States at relatively low cost. Low-skilled immigration creates an immigration surplus. The key to avoid having low-skilled immigration create a net fiscal burden, as current research suggests it does now, is to delay immigrants' access to public benefits.

An alternative way to reduce the fiscal cost of immigration, as Borjas (1999a) and others have suggested, is to curtail low-skilled immigration altogether. Concentrating immigration among the high-skilled would, relative to current US policy, raise the immigration surplus and lower the fiscal cost associated with immigration. There are three disadvantages to purely skills-based immigration. First, it would require a substantial increase in enforcement against illegal immigration. The plan proposed here, which legalizes the illegal inflow, has a much lower enforcement burden. Second, raising high-skilled immigration would likely lower global economic welfare. For poor countries, losing high-skilled labor could have very negative effects on their GDPs and on the performance of their political, legal, and educational institutions. Brain drain removes not just scarce factors of production from a country but also government leaders, judges, and teachers. Third, lowering low-skilled immigration would lower immigration from Mexico, causing considerable hardship for the country. Emigration raises wages in Mexico, serves as a safety valve during times of economic crisis, and through remittances increases national income. Presumably, it also substantially increases the standard of living of migrants. In the end, trying to reduce low-skilled legal immigration would likely only perpetuate low-skilled illegal immigration.

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