The Economic Case for Skilled Immigration

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The United States offers unequaled social, political, and economic opportunities to anyone lucky enough to enter its borders. Because of these opportunities, many more people want to come to the United States than the country is willing to admit. Consider the "diversity lottery" that the United States has held annually since 1995. Each year, around 50,000 visas are made available to persons originating in "countries with low rates of immigration to the United States." Persons living in the eligible countries can apply for a random chance at winning one of the coveted entry visas. Potential migrants applied for the 2005 drawing by submitting an application between October 5, 2005 and December 4, 2005. This lottery drew 5.5 million qualified applications for the 50 thousand available visas.

Because of the excess demand for entry visas, immigration policy has to specify a set of rules to pick and choose from the many applicants. These rules may stress family ties (as is currently done for the vast majority of legal immigrants), or national origin (as used to be done), or socioeconomic characteristics (as is done in other countries such as Australia and Canada). Which entry rules should the United States have?

Before 1965, immigration to the United States was regulated by the "national origins quota system." In that system, the fixed number of entry visas was allocated on the basis of national origin, with each country's share depending on the representation of that ethnic group in the U.S. population as of 1920. As a result, Germany and the United Kingdom received almost two-thirds of the available visas. Immigration from Asia was effectively banned. Finally, few persons migrated from Latin America despite the fact that the national-origins quota system did not set a numerical limit on migration from countries in North and South America.

The rekindling of the immigration debate has its roots in the 1965 Amendments to the Immigration and Nationality Act. The 1965 Amendments (and subsequent minor legislation) repealed the national origins quota system, set a world-wide numerical limit, and enshrined a new objective for awarding entry visas among the many applicants: the reunification of families. In 2005, almost 60 percent of the legal immigrants entered through one of the family reunification provisions of the law.

The policy shifts in the 1965 Amendments had a profound impact on the size of the immigrant flow into the United States. Even though only 250 thousand legal immigrants entered the country annually during the 1950s, almost one million were entering by the 1990s. As a result of these trends, and also because of the rapid increase in the number of illegal immigrants, the proportion of foreign-born persons in the population began to rise rapidly, from 4.7 percent in 1970, to 7.9 percent in 1990, to over 11 percent by 2000.

The post-1965 resurgence of large-scale immigration to the United States has motivated many researchers to document and examine various aspects of the economic and social consequences impact of immigration. A key result in that literature is that the *relative* skills of the immigrant population have dropped precipitously since 1965. In 1960, for example, the

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typical immigrant earned about 7 percent *more* than the typical native worker. By 2000, the typical immigrant earned about 19 percent *less* than the typical native worker. It is often argued that this relative decline in immigrant skills can be attributed to the fact that current U.S. immigration policy over-emphasizes family links between U.S. residents and visa applicants in awarding entry visas, and largely ignores the skills of the applicants. The deteriorating economic status of the immigrant population has sparked a debate over whether the goal of immigration policy should be shifted away from family reunification, and should focus instead on the potential economic impact of the immigrants.

We care about the relative skills of immigrants for a number of reasons. For example, immigrants who have high levels of productivity and who adapt rapidly to conditions in the host country's labor market can make a significant contribution to economic growth. Conversely, if immigrants lack the skills that employers demand and find it difficult to adapt, immigration may increase the size of the population that requires public assistance and exacerbate ethnic and racial inequality.

Similarly, the debate over immigration policy has long been fueled by the widespread perception that immigration has an adverse effect on the employment opportunities of natives. A key insight of economic theory is that immigration has distributional impacts, reducing the income of workers who compete with immigrants and raising the income of those who employ immigrants or purchase immigrant-provided services. A low-skill immigrant influx would likely harm low-skill native workers, further increasing the economic and social problems associated with rising wage inequality.

The case that can be made for preferring one type of immigrant to another will ultimately depend on what one *assumes* about the country's policy objectives. More specifically, what should the United States seek to accomplish from immigration? As I have stressed repeatedly in my work, different policy goals will inevitably lead to different decisions about the composition of the immigrant population. For example, if immigration policy should strive to relieve the tax burden on native-born taxpayers, it would be fiscally irresponsible to admit millions of low-skill immigrants who have a high propensity for participating in public assistance programs. In contrast, if the goal were to help the poor of the world by giving many of them an opportunity to live and work in the United States, the increased cost of maintaining the welfare state is the price that Americans are willing to pay for their generosity.

The case for skilled immigration is based on *one* particular assumption about the policy goal. In particular, suppose that immigration policy should seek to improve the economic well being of the population currently residing in the United States (which, for simplicity, I will refer to as "natives").

One could obviously argue over whether this policy goal accurately represents what Americans *should* want to accomplish from immigration. Nevertheless, the economic well being of the native-born population has played and continues to play a very influential role in determining the shape and direction of immigration policy.

Suppose then that the goal of immigration policy were to maximize the economic well being of the native population. And suppose that native economic well being depends both on per-capita income and on the distribution of income in the native population. In particular, the country wants to pursue an immigration policy that makes natives wealthier, but that does not increase the income disparity among workers already in the country. What type of immigration policy should the United States then pursue? More specifically, which types of immigrants should the country admit, high-skill or low-skill workers?

A strong case can be made that the economic well being of natives would improve most if the country adopted an immigration policy that favored the entry of high-skill workers. The argument in favor of this policy contains three distinct parts. Consider first how the fiscal impact of immigration affects the native population. High-skill immigrants earn more, pay higher taxes, and require fewer social services than low-skill immigrants. Put simply, high-skill immigration increases the after-tax income of natives, while the tax burden imposed by the immigration of low-skill workers probably reduces the net wealth of native taxpayers. From a fiscal perspective, therefore, there is little doubt that high-skill immigration is a good investment, particularly when compared to the immigration of low-skill workers.

The second part of the case for skilled immigration relies on how immigrants alter the productivity of the native work force and of native-owned firms. Although there is a lot of disagreement among many economists about the magnitude of the costs and benefits of current immigration policy (which is predominantly composed of low-skill workers), there is much less disagreement with the proposition that the net gain from immigration would increase, and perhaps increase substantially, if the immigrant influx were more skilled. For example, some of the tabulations that I conducted in *Heaven's Door* (Princeton University Press, 1999) indicated that the net annual income accruing to the native population could increase four-fold (from about $10 billion to $40 billion in the short run) if the immigrant influx were to change from 30% high-skill to 100% high-skill. The reason for the additional gains is that the productive infrastructure of the U.S. economy—what economists call the "capital stock"—is more complementary with high-skill than with low-skill workers. Hence native-owned resources would be more productive (and profitable) with a high-skill immigrant influx.

Finally, skilled immigration has more favorable distributional effects. The skilled workers who already reside in the United States will face more job competition and lower wages. As a result, there will be less, rather than more, wage inequality.

How can the United States select skilled workers from the pool of visa applicants? In the past few decades, Australia, Canada, and New Zealand have all instituted point systems that reward certain socioeconomic traits in the admissions formula. In Canada, for example, visa applicants are graded in terms of their age, educational attainment, work experience, English or French language proficiency, and occupation. Those applicants who score enough points qualify for entry into Canada, while those who fail the test are denied entry.

Needless to say, any point system is inherently arbitrary. It is unclear, however, that the Canadian point system—with its detailed gradations for different types of jobs and different types of workers—is any more arbitrary than the one currently used by the United States, where entry, for the most part, is determined by the answer to a single question: does the applicant have relatives already residing in the United States?

It is worth emphasizing that the notion that the United States would benefit more from a high-skill immigrant influx does not imply that the United States should adopt an open-door policy when it comes to admitting skilled workers. Even though there is a good economic case in favor of high-skill immigration, the available studies provide few guidelines for choosing the "right" number of high-skill immigrants.

A sensible way of posing the "numbers question" is to imagine a counterfactual: what would be the nature of the immigration debate if the immigrant flow were composed of 1 million highly skilled workers? I believe the United States would still be in the midst of a debate, and perhaps an even more heated debate. After all, this type of immigration would have substantial distributional consequences on some well-organized, highly educated, and highly vocal

constituencies. The political reactions of some professional groups—such as engineers, computer programmers, and mathematicians—to the economic impact of increased immigration in their fields stress precisely these distributional impacts (immigration lowers wages!).

A flow of 1 million high-skill workers per year would probably have a very large impact on the earnings of high-skill workers already in the country. To get a rough sense of the magnitude, suppose the United States enacted an immigration policy that admitted 1 million college graduates, and that this policy was in effect for two decades. By the year 2025 or so, roughly 15 million high-skill workers would have been added to the workforce (assuming that 75 percent of the high-skill immigrants were working at that time). There were approximately 32 million college graduates employed in the United States in 2004. Immigration would effectively increase the supply of college graduates by around 50 percent. The available evidence suggests that a 10 percent increase in labor supply may reduce the wage of competing native workers by 3 percent. A 50 percent increase in skilled labor supply would then reduce the wage of college graduates by 15 percent!

This reduction in the returns to a college education would probably influence the college enrollment decisions of many native students. After all, going to college is expensive, both in terms of tuition and in terms of the potential earnings that students forgo while in school. If a particular social policy were to reduce the returns to such an investment by 15 percent, many students would probably respond by deciding not to get a college education at all. Moreover, disadvantaged native students may well be more sensitive to the decline in the returns to college, and their enrollment rates could easily drop the most. These are the students, after all, who can least afford to attend college and who would quickly discover that the shrinking returns to a college education do not justify the cost.

There is, therefore, some limit to how much immigration should narrow income inequality. Put bluntly, the potential for millions (perhaps even tens of millions) of high-skill workers to enter from such countries as China and India should indicate to any prudent observer that some limitations on the number of skilled workers that enter the country is required.

Let me conclude by reemphasizing that the economic case for high-skill immigration versus family reunification hinges entirely on an *assumption* about the country's policy objectives. High-skill immigration is the best policy if the United States wishes to maximize the economic well being of the native population. This assumption obviously ignores the impact of immigration on many other constituencies, such as on the immigrants themselves (who would clearly prefer to be reunited with their families) and on the vast population that remains in the source countries. The United States, for instance, might choose to drain the labor markets of many source countries from particular types of skills and abilities (such as high-tech workers). Such a brain drain would probably have a detrimental effect on economic growth in those countries.

In short, there are difficult tradeoffs. Pursuing a particular immigration policy might help some groups, such as native workers, but may hurt others. As a result, the adoption and implementation of any specific immigration policy will leave winners and losers in its wake. In the end, the goals of immigration policy must inevitably reflect a political consensus that inevitably incorporates the conflicting social and economic interests of various demographic, socioeconomic, and ethnic groups, as well as political and humanitarian concerns.