

Reforming the US Immigration System to Promote Growth

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ABSTRACT

To better serve America's economic needs in the 21st century, immigration reform should welcome a significantly larger number of foreign-born workers in order to harness global talent flows. Specifically, this paper recommends (1) a large increase in permanent immigrant visas for high-skilled (including STEM) workers who are employed by or receive an offer of employment from a US-based company, (2) a significant expansion of temporary visa programs for both high- and low-skilled workers to meet the evolving demands of the US labor market and economy, (3) a visa allocation system that relies primarily on employer demand to inform needs, and (4) a fee-based temporary visa system to regulate demand while generating additional revenue. These immigration reforms would boost US economic growth, raise the average productivity of US workers, create more job opportunities for native-born Americans, expand America's high-technology sectors, generate net revenue, and extend the solvency of federal retirement programs.

JEL codes: F22, F66, J61, J21, J24, K37

Keywords: immigration reform, visa reform, H-1B, labor supply, civilian labor force, illegal, permanent legal residents, green cards, merit-based, economic growth, low-skilled, high-skilled, STEM, global talent flows, family reunification

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The US immigration system is poorly designed to meet the needs of America’s 21st century economy. It fails to provide adequate opportunities for well-educated and highly skilled immigrants to join the US workforce to spur innovation, output, and job creation for native-born Americans. Illegal immigration dominates the discussion in Washington, but it is a symptom of the larger challenge of reforming America’s system of legal entry and immigration. It has been more than half a century since America’s immigration system has been comprehensively overhauled. As political leaders in Washington devote most of their attention to enforcing the letter of the current law, the most urgent public policy need is for a dramatic reform of the entire immigration system.

The last fundamental revision of the US immigration system was the 1965 Immigration and Nationality Act.¹ The act abolished the national-origins quota system that had been in place since the 1920s and created, in its place, a system oriented toward family reunification, with three-quarters of admissions reserved for immigrants with family already in the United States. It established annual caps on extended-family immigration and employment-based visas, and it effectively capped the visas from any single country at 20,000 per year. Immediate family members—spouses, minor children, and parents of adult US citizens—were exempt from the caps.²

Twenty-five years later, Congress enacted the Immigration Act of 1990, which amended the 1965 law by increasing the caps on the number of immigrants granted permanent legal status each year. It created the Diversity Visa Lottery Program to increase immigration from certain countries that had been

1. Immigration and Nationality Act of 1965, Pub. L. No. 89-236, 79 Stat. 911 (1965). It is also known as the Hart-Celler Act, after its main sponsors.

2. For an overview of the 1965 Immigration and Nationality Act, see Muzaffar Chishti, Faye Hipsman, and Isabel Ball, “Fifty Years On, the 1965 Immigration and Nationality Act Continues to Reshape the United States” (Migration Policy Institute, Washington, DC, October 15, 2015).

underrepresented by the existing system. The 1990 amendments also created the H-1B visa for temporary nonimmigrants with specialized skills.³

Proposals for comprehensive reform of the immigration system have been introduced in Congress as recently as 2013, but those efforts have failed to gain sufficient support. Some of the proposed measures would have reformed the system in the direction of expanding visas for both permanent immigration and temporary, employment-based entry. Other recent proposals would have restricted legal immigration, principally by reducing the number of family categories and eliminating other channels to legal immigration.

This working paper will explain why expanding opportunities for legal immigration is an important component of promoting US economic growth, higher living standards, and technological leadership. In a modern, global economy, immigration reform must reorient the US system primarily toward employment-based immigration rather than family reunification. The paper will then outline a dramatically reformed US immigration system that builds on the strengths of America's more demand-driven system for visa allocation while incorporating useful lessons from the experience of other advanced economies such as those of Canada and Australia. Specifically, the paper recommends a large increase in employment-related visas—both temporary and permanent visas for higher-skilled workers and temporary visas for lower-skilled workers.

Based on evidence and history, a visa system reformed as proposed in this paper would boost economic growth, increase the well-being of the large majority of Americans, sharply reduce illegal immigration, and promote American influence and leadership in the world.

AMERICA NEEDS IMMIGRANTS TO GROW AND PROSPER

Central to its economic agenda, the Trump administration seeks to boost the annual growth rate of real US gross domestic product from 2.1 percent (the average rate since 2010) to 3.0 percent or more. The fiscal targets contained in the administration's fiscal year 2018 budget, released in May 2017, depend on the economy reaching 3.0 percent growth by 2020. Ramping up the underlying trend of US growth by a full percentage point or more will be more practicable if the administration's economic policies include reforming and liberalizing the nation's immigration system.

3. Immigration and Nationality Act of 1990, Pub. L. No. 101-649, 104 Stat. 4978 (1990).

The ability of a nation's economy to grow is determined by its capital stock, the growth of its labor supply, and how efficiently labor and capital work together—what economists call “total factor productivity.” Immigration directly promotes the second and third while stimulating further investment. Specifically, immigration increases the total number of workers in the labor force while at the same time increasing the average productivity of workers across the economy, immigrant and native born alike. Without a modernization of the US immigration system, achieving 3.0 percent growth will be even more challenging.

Immigration Offsets America's Demographic Decline

Immigration affects the economy most directly through growth of the labor supply. America in 2017 is undergoing an unprecedented period of demographic transition. The birth rate among native-born women has fallen below the replacement level. Starting around the year 2010, the huge cohort of baby boomers began to retire from the workforce. The growth of the civilian labor force has been falling steadily, from 1.2 percent per year in the 1990s to 0.7 percent per year in the 2000–2010 period to 0.5 percent per year in the current decade.⁴ The number of working-age Americans (age 25–64) born in the United States to US-born parents has already begun to decline and will shrink by more than 8 million from 2015 to 2035.⁵ Whatever growth the United States experiences in the workforce in the next two decades will be because of immigrants and the children of immigrants.

Immigrants admitted to the United States each year tend to be younger than native-born Americans and are

“Whatever growth the United States experiences in the workforce in the next two decades will be because of immigrants and the children of immigrants.”

4. National Academies of Sciences, Engineering, and Medicine (NASEM), *The Economic and Fiscal Consequences of Immigration* (Washington, DC: National Academies Press, 2016), 21.

5. Jeffrey S. Passel and D'Vera Cohn, “Immigration Projected to Drive Growth in US Working-Age Population through at Least 2035” (Pew Research Center, Washington, DC, March 8, 2017).

more inclined to participate in the labor force. According to data from the US Department of Homeland Security, the median age of permanent immigrants admitted to the United States in the past decade is 32.5,⁶ while the median age of all US residents (including immigrants) is 37.6.⁷ So the median age of those receiving lawful permanent resident (LPR) status is five years younger than the median age of all US residents.

Immigrants are not only younger than their native-born counterparts but also more inclined to participate in the labor force. The latter is especially true of immigrant men. According to the US Bureau of Labor Statistics, the labor force participation rate of all foreign-born individuals was 65.2 percent in 2016, compared with the participation rate for the native born of 62.3 percent. For foreign-born men, the participation rate was 77.8 percent, a full 10 percentage points higher than the rate for native-born men, 67.5 percent. The participation rate of foreign-born women was slightly lower than the rate of native-born women, 53.4 percent compared to 57.5 percent. The unemployment rate for foreign-born persons in the United States in 2016 was 4.3 percent, compared with an unemployment rate for native-born workers of 5.0 percent.⁸

Without a growing workforce, US companies will find it increasingly difficult to hire the workers they need to meet domestic and global demand. Manufacturing, agriculture, construction, and high technology are among the sectors that are expected to suffer the most acute shortages of workers. A declining workforce would slow US growth potential and reduce the relative size of the US economy and US influence in the world.

The continuing slowdown in the growth of the US workforce will also impose a growing strain on federal retirement programs. One measure of the country's ability to fund retirement programs is the Old Age Dependency Ratio (OADR)—the number of Americans who are 65 and older versus the number of Americans who are in their working years of 25 to 64. The OADR fluctuated within the range of 19 to 24 up until 2010, but with baby boomers now retiring in large numbers, the ratio is expected to climb above 40 by 2030 and reach 47.5

6. US Department of Homeland Security, "Table 8: Persons Obtaining Lawful Permanent Resident Status by Sex, Age, Marital Status, and Occupation," in *2015 Yearbook of Immigration Statistics* (Washington, DC: Office of Immigration Statistics, 2016).

7. For the median age in 2010, see US Census Bureau, "Profile of General Population and Housing Characteristics: 2010," 2010 Demographic Profile Data. For median age in 2015, see "Median Age of the Resident Population of the United States from 1960 to 2015," Statista Inc., accessed August 1, 2017, www.statista.com/statistics/241494/median-age-of-the-us-population/.

8. US Department of Labor, "Foreign-Born Workers: Labor Force Characteristics Summary" (USDL-17-0618, Bureau of Labor Statistics, May 18, 2017).

by 2065. If legal immigration were sharply curtailed, as has been proposed, the future OADR would rise even higher. If immigration were cut off immediately, the ratio would reach 55.9 by 2065.⁹

The smaller the future Old Age Dependency Ratio, the less strain there will be on federal retirement programs. A steady or increased inflow of immigrant workers helps to spread the cost of funding old-age pension payments across a larger pool of workers, reducing the need to raise payroll taxes, cut benefits, or both.

More Immigrants, More Output, More Jobs

Immigration reform would allow the US economy to grow faster by increasing the number of workers in the labor force and the total number of hours worked per year. Because immigrants are more likely to be of working age than native-born Americans and are more likely to seek work, immigration can help to slow or even reverse the recent trend of declining labor force participation.

An increase in the workforce driven by immigration does not lead to a general displacement of existing native-born workers. Although the US labor force has more than doubled in the past 50 years, there has been no upward trend in the unemployment rate because the economic activity enabled by the growth in workers has also stimulated demand for workers.¹⁰ As the workforce grows, so too does demand for all the goods and services that American households purchase, from groceries and cars to education and housing. This increased demand in turn stimulates more production, leading to more employment and the maintenance of full employment.

A growing workforce also stimulates investment by increasing the returns on capital. While immigration can put downward pressure on wages in certain industries in the short run, the availability of more workers at competitive wages creates incentives for greater investment. And rising investment stimulates more demand for labor, increases productivity, and creates upward pressure on wages. The increased investment spurred by immigration means that, over time, the capital-to-labor ratio grows the same amount even if the number of immigrants increases.¹¹

9. NASEM, *Economic and Fiscal Consequences of Immigration*, 65.

10. US Bureau of Labor Statistics, "Table A-1. Employment Status of the Civilian Population by Sex and Age," accessed July 27, 2017, <https://www.bls.gov/news.release/empsit.t01.htm>.

11. Florence Jaumotte, Ksenia Koloskova, and Sweta C. Saxena, *Impact of Migration on Income Levels in Advanced Economies*, Spillover Notes 8 (Washington, DC: International Monetary Fund, October 24, 2016), 12–13.

Immigrants Complement US Workers, Increasing Gains from Specialization

Immigrants do more than increase the size of the labor force. Because immigrants tend to have different skills than the typical native, they boost the growth of the US economy by filling niches in the labor market. Immigrants tend to be overrepresented at the higher and lower ends of the skill spectrum, while native-born Americans tend to be clustered in the middle skill levels. Immigrants make up 17 percent of the US workforce, but they account for more than one-third of workers in the United States with a PhD in the fields of science, technology, engineering, and math (STEM). On the other end of the skills spectrum, immigrants represent 40 percent of those in the workforce without a high school diploma.¹²

The complementary nature of immigration means that immigrants do not compete directly with the vast majority of Americans for employment. In fact, by providing skills that are in relatively short supply, immigrants enable US workers to be more productive. In the technology area, immigrants make up a disproportionate share of scientists, college professors, and technical workers. Native-born Americans are not earning qualifying degrees in numbers sufficient to fill the available positions in US industry. By filling those positions, high-skilled immigrants add to the “agglomeration effect” by creating a critical mass of workers in a particular region and industry where ideas can be shared more easily.¹³ Silicon Valley is the most notable example.

Because of differences in English proficiency, immigrants tend to concentrate in more technical occupations such as the job of computer specialist. This creates more opportunities for native-born workers, who are more concentrated among managers, sales personnel, and other occupations requiring more interaction with customers and subordinates.¹⁴

On the lower rungs of the skills ladder, immigrants fill jobs that fewer and fewer Americans are interested in, and they fill those positions at wage rates that allow their industries to remain competitive in the US market. Such jobs require only short-term, on-the-job training and include health service workers, personal service workers, farm laborers, cleaning service and food service workers, construction workers, textile machine operators, carpenters, and nonfarm laborers.¹⁵ Low-skilled immigrants also fill positions in the growing health and home care

12. Giovanni Peri, “Immigrants, Productivity, and Labor Markets,” *Journal of Economic Perspectives* 30, no. 4 (2016): 3–30, 9.

13. Sari Pekkala Kerr et al., “Global Talent Flows,” *Journal of Economic Perspectives* 30, no. 4 (2016): 92.

14. NASEM, *Economic and Fiscal Consequences of Immigration*, 95.

15. NASEM, *Economic and Fiscal Consequences of Immigration*, table 3-18, 137–38.

service sectors, such as home health aides, nursing aides, orderlies, attendants, personal and home care aides, medical assistants, and maids and housekeepers.¹⁶

Such jobs were filled in decades past by adult Americans without a high school diploma, but the number of native-born Americans in that category has been steadily shrinking. From 2000 to 2016, the number of native-born Americans 25 and older who had not completed high school fell by almost 7 million, from 20.5 million to 13.5 million. As a share of the adult native-born population, the share of high school dropouts has declined in that same period from 13.4 percent to 7.6 percent, and the share continues to decline.¹⁷

Contrary to popular belief, a large majority of native-born workers do not compete for jobs with low-skilled immigrants. Studies show that immigration may have a modest negative effect on wages earned by the small and shrinking pool of adult Americans without a high school diploma,¹⁸ but the impact on the wages of the other 92 percent of native-born Americans in the labor force is neutral to positive. On the high-skilled end of the spectrum, the impact of immigration on the wages of the native born is muted by the complementary nature of the immigrants' skills. Matthew J. Slaughter, a former member of the president's Council of Economic Advisers, noted in a survey of immigration and productivity growth, "Skilled immigrants tend to complement, not substitute for, native-born workers in US companies. Companies that hire more skilled immigrants tend to hire more native-born workers as well."¹⁹

A rising share of immigrants in the labor market also encourages Americans to upgrade their skills with more education and to shift into areas of employment where language skills are more important and tend to be rewarded. As immigrants enter the workforce, Americans tend to stay in school longer to upgrade their skills and their potential earning power. A 2012 study found that an increase in the presence of immigrants in the workforce increased the probability that native-born Americans will stay in school and complete their high

16. Ian Goldin, Geoffrey Cameron, and Meera Balarajan, *Exceptional People: How Migration Shaped Our World and Will Define Our Future* (Princeton, NJ: Princeton University Press, 2011), 250.

17. US Census Bureau, "Table 2. Educational Attainment of the Population 25 Years and Over, by Selected Characteristics," in *Educational Attainment in the United States: 2016*, March 2017, <https://www.census.gov/data/tables/2016/demo/education-attainment/cps-detailed-tables.html>.

18. See Giovanni Peri, "Do Immigrant Workers Depress the Wages of Native Workers?," *IZA World of Labor* 42 (May 2014); and Giovanni Peri, *Immigrants, Skills, and Wages: Measuring the Economic Gains from Immigration* (Washington, DC: Immigration Policy Center, 2006)..

19. Matthew J. Slaughter, "The Contributions to America of Skilled Immigrant Workers" (White Paper, ACalliance, Washington, DC, October 2016), 8.

“Low-skilled immigrants reduce the price US households pay for immigrant-intensive services such as childcare, eating out, house cleaning and repair, landscaping and gardening, taxi rides, and construction.”

school education.²⁰ Other research suggests that in states with a heavier concentration of less educated immigrants, native-born workers are more likely to shift to more communication-intensive occupations, where their language skills give them an advantage and where wages are typically higher than in manual jobs. This has the collective effect of raising the productivity of Americans in the workforce.²¹

Lower-skilled immigrants also boost productivity and output by supplying services that allow higher-skilled Americans to raise their productivity. The 2016 report from the National Academies of Sciences, Engineering, and Medicine (NASEM) noted that low-skilled immigrants reduce the price US households pay for immigrant-intensive services such as childcare, eating out, house cleaning and repair, landscaping and gardening, taxi rides, and construction. The affordability of such services allows native-born workers in higher-salaried jobs, especially women, to increase their paid work hours.²²

Immigrants promote faster US economic growth because they are generally more flexible about when and where they will work. Immigrants have proven to be more geographically mobile. They are less likely to be rooted in one geographic location and are therefore more willing than natives to move to places where demand for their labor is higher than the supply.²³ That can mean moving to urban centers of high-tech activity or to rural areas in need of specific kinds of labor, from agriculture to health-care. They are also more willing to work unusual hours, at nights and on weekends, which provides more labor for the economy in a way that is less likely to compete directly

20. Jennifer Hunt, “The Impact of Immigration on the Educational Attainment of Natives” (NBER Working Paper No. 18047, National Bureau of Economic Research, Cambridge, MA, May 2012).

21. Giovanni Peri, “The Effect of Immigrants on US Employment and Productivity” (FRBSF Economic Letter, Federal Reserve Bank of San Francisco, August 30, 2010).

22. NASEM, *Economic and Fiscal Consequences of Immigration*, 280–81.

23. NASEM, *Economic and Fiscal Consequences of Immigration*, 317.

with US-born workers.²⁴ Greater mobility serves the overall economy by reducing regional differences in employment and by allowing work to be spread out across time and space.

In summary, immigrants do not ordinarily compete with Americans for a limited number of jobs; instead, they work with and for native-born workers in a cooperative way that lifts the general productivity and prosperity of the United States.

Immigrants Spur Innovation, Patents, and Startups

Immigrants create wealth in America by spurring innovation and founding new companies. Highly skilled immigrants are more likely to file patent applications than their native-born counterparts and are more likely to start new businesses, fueling entrepreneurial activity, providing new products and services, and creating employment opportunities for native-born workers, while raising overall productivity. The patenting and innovation spurred by immigrants allow the United States to shift beyond its production possibility frontier, which raises the speed limit for the economy's long-run growth potential.

The 2016 NASEM report found that “immigrants are more innovative than natives; more specifically, high-skilled immigrants raise patenting per capita, which is likely to boost productivity and per capita economic growth.” While immigrants account for 13 percent of the US population, they are responsible for one-third of all patent filings in the United States.²⁵

The United States has been the world's greatest beneficiary so far from the international mobility of skilled labor. The United States has attracted the largest net inflow of global inventors who have filed international patents. Based on data from the World Intellectual Property Organization from 2001 to 2010, a recent study determined that “the United States has received an enormous net surplus of inventors from abroad, while China and India have been major source countries.”²⁶ Again, the prime example is Silicon Valley in California. The same study found that “more than half of the high-skilled technology workers and entrepreneurs in Silicon Valley are foreign-born.”²⁷

24. Pavel Dramski, *On the Clock: How Immigrants Fill Gaps in the Labor Market by Working Nontraditional Hours* (New York: New American Economy, 2017).

25. Slaughter, “Contributions to America,” 6.

26. Pekkala Kerr et al., “Global Talent Flows,” 90.

27. Pekkala Kerr et al., “Global Talent Flows,” 84.

Immigrants are also more likely to found new enterprises, from ethnic restaurants to billion-dollar technology companies.²⁸ Some of the most famous and successful US companies today were founded or cofounded by first- or second-generation immigrants. According to a June 2017 report from the Massachusetts Technology Leadership Council, 40 percent of America’s Fortune 500 companies were founded by immigrants or the children of immigrants. A 2016 study by the National Foundation for American Policy found that more than half of the startup companies in the United States today that are valued at more than \$1 billion, so-called “unicorns,” were started by immigrants. The 44 unicorn companies founded by immigrants each employed an average of 760 workers.²⁹

As one study of global talent flows concluded, “The weight of the evidence points to high-skilled immigrants boosting innovation and productivity—mainly through increased quantity of skilled individuals pursuing innovative work.”³⁰

“Immigration Surplus” Raises Income of Americans

Immigrants fuel economic growth, wealth creation, and higher average incomes in the countries where they settle. The primary beneficiaries are the immigrants themselves, but native-born individuals are also net beneficiaries. The economies of scale of a larger domestic economy, the economic diversity and complementarities, and the ideas, innovation, and entrepreneurship that immigrants bring create a net gain in wealth for their native counterparts.

Economists call this the “immigration surplus.” It is the net gain available to natives when the economic costs from immigration are subtracted from the benefits. The number is typically small compared to America’s huge economy, but while estimates vary, they are invariably positive. Under conventional assumptions, the annual immigration surplus from the current stock of US immigrants is estimated to be in the range of 0.1 to 0.4 percent of US gross domestic product.³¹ That translates into \$19 billion to \$74 billion in today’s economy in the total net benefits accrued to native-born Americans from current levels of immigration.

28. NASEM, *Economic and Fiscal Consequences of Immigration*, 262.

29. Stuart Anderson, “Immigrants and Billion Dollar Startups” (Policy Brief, National Foundation for American Policy, Arlington, VA, March 2016).

30. Pekkala Kerr et al., “Global Talent Flows,” 96.

31. See Pia M. Orrenius and Madeline Zavodny, *Beside the Golden Door: US Immigration Reform in a New Era of Globalization* (Washington, DC: AEI Press, 2010), 47; NASEM, *Economic and Fiscal Consequences of Immigration*, 128; and George Borjas, *We Wanted Workers: Unraveling the Immigration Narrative* (New York: W. W. Norton and Co., 2016), 157–58.

In a comprehensive 2016 study of the economic impact of immigration on the economies of wealthier nations such as the United States, the International Monetary Fund (IMF) concluded, “Immigration significantly increases GDP per capita in advanced economies.” Specifically, the IMF study estimated that a one-percentage-point increase in the share of migrants in the adult population can raise GDP per capita by up to 2 percent in the long run, mainly through increased labor productivity.³²

The IMF study found that immigration had no measurable impact on income distribution in advanced economies. It found that high-skilled immigration did have a larger benefit for the top 10 percent of earners, but the bottom 90 percent also benefited. Low- and medium-skilled immigration “equally increases income per capita for the bottom 90 percent and the top 10 percent.”³³

Immigration also exerts a positive influence on US government finances. In general, immigrants tend to produce a fiscal surplus for the federal government, especially for its retirement programs, while imposing more immediate net costs on state and local governments, in particular because of education and income-support programs. High-skilled immigrants produce large fiscal surpluses for the government, while low-skilled immigrants tend to have a negative impact.

The NASEM report concluded that an immigrant who arrives in the United States at age 25 with a four-year college education will, over his or her lifetime, contribute a net surplus of \$504,000 to the finances of governments at all levels (net present value, 2012 dollars). An immigrant with an advanced degree will contribute almost twice that net amount, \$972,000, in his or her lifetime. An immigrant with less than a high school education, in contrast, will impose a net cost of \$109,000 over his or her lifetime.³⁴ The IMF study notes that such direct, static analysis may underestimate the full fiscal impact of immigration. A more “dynamic scoring” approach would take into account the spillover impact of immigration on productivity and GDP growth for the entire economy, an effect that further boosts tax revenue.³⁵

In its landmark 2016 study of the economic and fiscal consequences of immigration, NASEM concluded that immigration unambiguously contributes to US economic growth:

Most obviously, immigration supplies workers, which increases GDP and has helped the United States avoid the fate of stagnant

32. Jaumotte, Koloskova, and Saxena, *Impact of Migration*, 1.

33. Jaumotte, Koloskova, and Saxena, *Impact of Migration*, 15.

34. NASEM, *Economic and Fiscal Consequences of Immigration*, 440.

35. Jaumotte, Koloskova, and Saxena, *Impact of Migration*, 17.

economies created by purely demographic forces—in particular, an aging (and, in the case of Japan, a shrinking) workforce. Perhaps even more important than the contribution to labor supply is the infusion by high-skilled immigration of human capital that has boosted the nation’s capacity for innovation and technological change. The contribution of immigrants to human and physical capital formation, entrepreneurship, and innovation are essential to long-run sustained economic growth. Innovation carried out by immigrants also has the potential to increase the productivity of natives, very likely raising economic growth per capita. In short, the prospects for long-run economic growth in the United States would be considerably dimmed without the contributions of high-skilled immigrants.³⁶

Considering the economic and fiscal impacts of immigration, this evidence argues for a revised system that maintains or expands the current number of immigrants allowed while shifting the emphasis to employment-related skills rather than family relationships.

REVISING THE IMMIGRATION SYSTEM TO EMPHASIZE SKILLS AND GROWTH

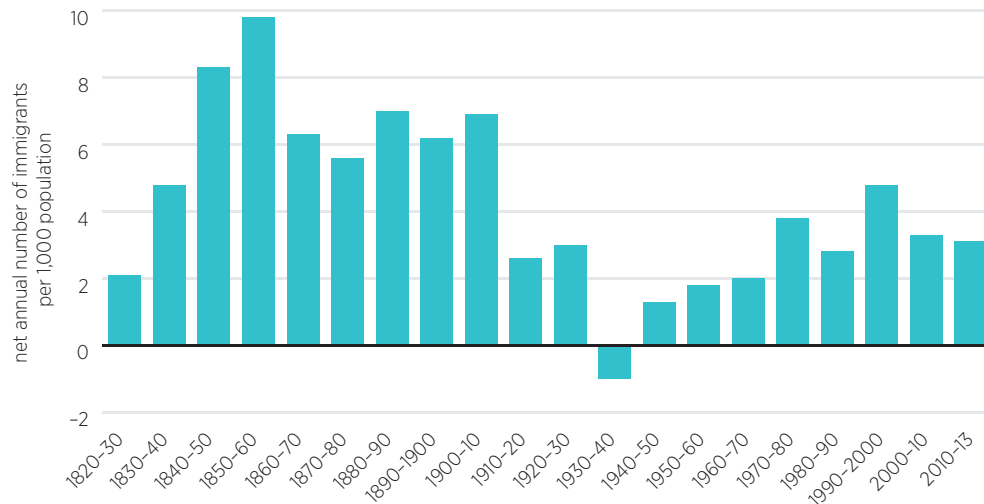
To realize the full benefits of immigration, Congress should undertake a major revision of the US immigration system. Any revision should seek to (1) boost US economic growth in a way that benefits the large majority of US citizens as well as immigrants, (2) enhance US technological leadership in the global economy, (3) minimize any negative fiscal impact on federal, state, and local governments, and (4) reduce incentives for illegal immigration.

To achieve those objectives, the reformed immigration system should maintain or incrementally increase the number of immigrants allowed to become permanent legal residents each year, while reorienting the mix of immigrants to those with employment-based visas with an emphasis on the skills and experience most in demand in the US labor market.

The United States currently issues about 1 million visas a year that allow foreigners to become legal permanent residents. That number has been steady in the past decade, averaging 1,075,089 from 2006 through 2015. In a typical year, 56 percent of those receiving LPR status are already living in the United States

36. NASEM, *Economic and Fiscal Consequences of Immigration*, 317.

FIGURE 1. NET US MIGRATION RATE BY DECADE, 1820–2013



Notes: The net international migration rate through 2000 is based on the rate of US population growth minus the rate of natural increase (crude birth rate minus crude death rate). This captures the net inflow of migrants to the United States regardless of legal status. The net migration rate from 2000 to 2013 also includes net migration between the United States and Puerto Rico, net migration of US citizens to and from the United States, and net movement of the armed forces population between the United States and overseas.

Source: National Academies of Sciences, Engineering, and Medicine, *The Economic and Fiscal Consequences of Immigration* (Washington, DC: National Academy Press, 2016), table 2-2, 36–37.

and adjust their status from a temporary visa, while the other 44 percent are new arrivals from abroad.³⁷

Current Immigration Levels Are Well within US Historical Norms

The number of permanent immigrants admitted each year is historically large in absolute numbers but well within historical norms as a share of the US population. Figure 1 shows the net international migration to the United States by decade per 1,000 population going back to 1820 when official entry records began. The chart is based on numbers compiled by NASEM and includes both legal and illegal immigration, as well as emigration. Since 2000, the US net immigration rate has been just above 3 per 1,000 US population.³⁸ That rate is less than half the average

37. Department of Homeland Security, “Table 6. Persons Obtaining Lawful Permanent Resident Status by Type and Major Class of Admission: Fiscal Years 2013 to 2015,” in *2015 Yearbook of Immigration Statistics* (Washington, DC: Office of Immigration Statistics, 2016).

38. NASEM, *Economic and Fiscal Consequences of Immigration*, table 2-2, 48–49.

rate from 1840 to 1910, a period that included the mass European migrations of the mid- and late 19th century. The rate is also lower than the historical average of 4.3 net immigrants per 1,000 population—the average since 1820. As the NASEM study concluded, “Current levels of immigration, though at record highs in absolute numbers, are not out of line with those experienced for most of American history when considered relative to the total US population.”³⁹

The first aim of immigration reform should be to allow an increase in the number of green card visas per year to sufficiently accommodate workforce needs in the face of the changing demography of the United States. An increase in the number of green cards issued each year to 1,400,000 would be a 30 percent increase from the current average of 1,075,000. This upward adjustment in legal, permanent immigration would increase the net annual immigration rate from 3.3 per 1,000 residents to 4.3, which would equal the nation’s average immigration rate from 1820 to 2000.

An additional 325,000 legal permanent residents per year would increase America’s overall population growth rate by about 0.1 percentage point per year—a small but beneficial impact. An annual growth rate of 0.8 percent compared to 0.7 percent would slow America’s demographic decline, as described previously, while still leaving the United States with its slowest population growth rate since the Great Depression.⁴⁰

Reorient Admissions from Family to Employment

Along with an increase in the number of immigrants per year, any serious reform of the US immigration system must shift the composition of the incoming immigrant population toward employment, especially of the high-skilled variety.

Since the 1965 immigration amendments, the US system has been weighted toward family reunification. In the most recent decade (2006–2015), nearly two-thirds of green cards have been issued to immigrants on the basis of their connection to a family member already in the United States. Another 21 percent were issued to refugees, asylum seekers, diversity lottery winners, and other smaller humanitarian categories. A mere 14 percent of green cards were issued on the basis of employment, and half of those visas were not awarded to the primary

39. NASEM, *Economic and Fiscal Consequences of Immigration*, 33.

40. Niraj Chokshidec, “Growth of US Population Is at Slowest Pace since 1937,” *New York Times*, December 22, 2016.

employment visa holders but to their spouses and children.⁴¹ The composition of the immigration flow must be adjusted to better serve the national interest and to reflect the changing global workforce.

There is a general consensus that the US immigration system should be weighted more toward employment-based criteria. President Trump and others have called for a “merit-based” system in which the skills, credentials, and work experience of potential immigrants are given more weight than family connections. The point-based systems used by Australia and Canada have been cited as examples the United States should emulate. But one bill proposed in Congress would raise the share of employment-based green cards by slashing the number of family-based visas issued each year, which would reduce legal immigration by 50 percent after a decade.⁴²

The problem with the current US immigration system is not that it allows too many immigrants to enter the country each year, but that it is too restrictive of employment-related immigration, especially among higher-skilled foreign-born workers.

Canada and Australia Open Their Doors to Employment-Based Immigration

Critics of the current US immigration system point to Canada and Australia as better examples of systems that emphasize skills-based employment rather than family reunification. Observers can learn from the immigration experience of both those nations, although not necessarily in the ways critics point to.

Like most other developed nations, Canada and Australia admit a much higher share of immigrants based on

“The problem with the current US immigration system is not that it allows too many immigrants to enter the country each year, but that it is too restrictive of employment-related immigration, especially among higher-skilled foreign-born workers.”

41. Department of Homeland Security, “Table 6. Persons Obtaining Lawful Permanent Resident Status by Type and Major Class of Admission: Fiscal Years 2013 to 2015.”

42. David Nakamura, “Trump, GOP Senators Introduce Bill to Slash Legal Immigration Levels,” *Washington Post*, August 3, 2017.

employment than does the United States. While the United States awards only 14 percent of its permanent immigrant visas based on employment, the share in both Canada and Australia is 61 percent.⁴³

The tilt toward employment-based immigration in Canada and Australia does not mean that these countries are less generous in allowing family-based immigration. As a share of the nation's population, annual family-based immigration in each of those countries is similar to that in the United States. In the years 2013–2015, Canada admitted 2.03 family-based immigrants per year per 1,000 population, and Australia admitted 2.59, compared to 2.07 in the United States.⁴⁴

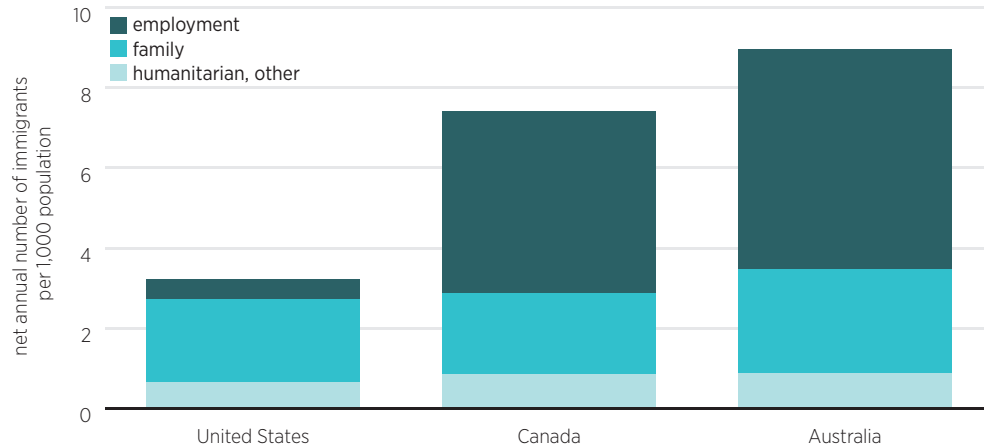
Where the difference is stark is in the relative inflow of employment-based immigration and overall immigration. This is plainly visible in figure 2. In Canada, during the same three-year period, 4.54 employment-based immigrants were admitted per year per 1,000 population, and in Australia the number was 5.48. In comparison, the annual inflow rate in the United States of employment-based immigrants per 1,000 population was 0.48.⁴⁵ While the rate of family-related immigration is roughly equivalent in all three countries, the rate of employment-based immigration relative to population is more than 9 times greater in Canada than in the United States, and it is 10 times greater in Australia.

43. For Australian immigration and population figures, see Australian Government, Department of Immigration and Border Protection, *Australia's Migration Trends 2012–13*, 2014, 7; Australian Government, Department of Immigration and Border Protection, *Australia's Migration Trends 2013–14*, 2015, 7; and Australian Government, Department of Immigration and Border Protection, *Australia's Migration Trends 2014–15*, 2016, 5. For Canadian immigration figures, see Government of Canada, “Canada—Permanent Residents by Category and Source Area,” in *Facts & Figures 2015: Immigration Overview—Permanent Residents*, September 24, 2016. For US immigration figures, see Department of Homeland Security, “Table 6. Persons Obtaining Lawful Permanent Resident Status by Type and Major Class of Admission: Fiscal Years 2013 to 2015.” For US annual population, see US Census Bureau, “Annual Estimates of the Resident Population: April 1, 2010 to July 1, 2016,” 2016 Population Estimates.

44. Australian Government, Department of Immigration and Border Protection, *Australia's Migration Trends 2012–13*; Australian Government, Department of Immigration and Border Protection, *Australia's Migration Trends 2013–14*; Australian Government, Department of Immigration and Border Protection, *Australia's Migration Trends 2014–15*; Government of Canada, “Canada—Permanent Residents by Category and Source Area”; Department of Homeland Security, “Table 6. Persons Obtaining Lawful Permanent Resident Status by Type and Major Class of Admission”; US Census Bureau, “Annual Estimates of the Resident Population: April 1, 2010 to July 1, 2016.”

45. Australian Government, Department of Immigration and Border Protection, *Australia's Migration Trends 2012–13*; Australian Government, Department of Immigration and Border Protection, *Australia's Migration Trends 2013–14*; Australian Government, Department of Immigration and Border Protection, *Australia's Migration Trends 2014–15*; Government of Canada, “Canada—Permanent Residents by Category and Source Area”; Department of Homeland Security, “Table 6. Persons Obtaining Lawful Permanent Resident Status by Type and Major Class of Admission”; US Census Bureau, “Annual Estimates of the Resident Population: April 1, 2010 to July 1, 2016.”

FIGURE 2. AVERAGE ANNUAL IMMIGRATION BY CATEGORY, 2013–2015



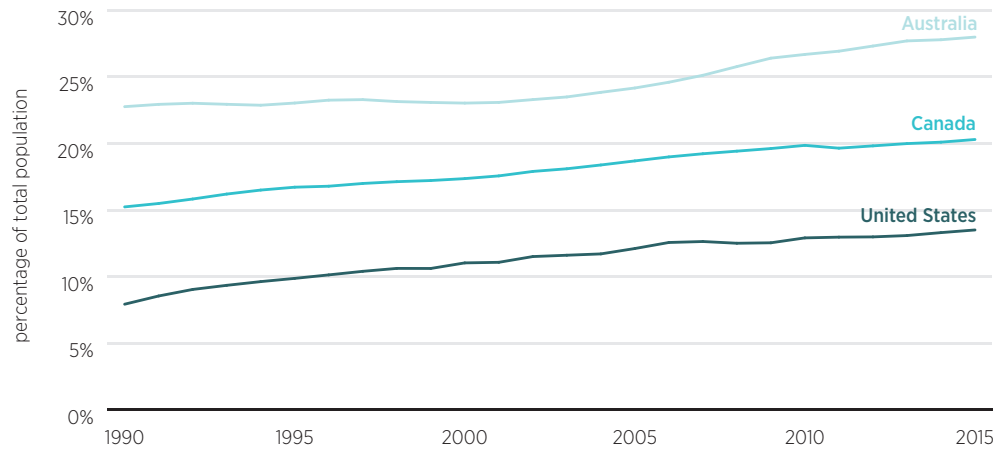
Sources: For Australian immigration and population figures, see Australian Government, Department of Immigration and Border Protection, *Australia's Migration Trends 2012–13*, 2014, 7; Australian Government, Department of Immigration and Border Protection, *Australia's Migration Trends 2013–14*, 2015, 7; and Australian Government, Department of Immigration and Border Protection, *Australia's Migration Trends 2014–15*, 2016, 5. For Canadian immigration figures, see Government of Canada, "Canada—Permanent Residents by Category and Source Area," in *Facts & Figures 2015: Immigration Overview—Permanent Residents*, September 24, 2016. For US immigration figures, see Department of Homeland Security, "Table 6. Persons Obtaining Lawful Permanent Resident Status by Type and Major Class of Admission: Fiscal Years 2013 to 2015," in *2015 Yearbook of Immigration Statistics* (Washington, DC: Office of Immigration Statistics, 2016). For US annual population, see US Census Bureau, "Annual Estimates of the Resident Population: April 1, 2010 to July 1, 2016," 2016 Population Estimates.

When all types of immigration are counted—employment, family, humanitarian, and all other categories—the annual rates per 1,000 population in both Canada and Australia are more than twice as high as in the United States. The current rate of total immigration in the other two countries today more closely resembles immigration rates not seen in the United States since the late 19th and early 20th centuries.

Canada and Australia's relative openness to immigration compared to the United States is not a recent phenomenon. Foreign-born individuals make up a much larger share of the population in Canada and Australia than they do in the United States. In 2015, immigrants accounted for 20.3 percent of the population in Canada and 28 percent in Australia, compared with 13.5 percent in the United States. And as shown in figure 3, that difference has persisted for many years.⁴⁶

46. Organisation for Economic Co-operation and Development, "Foreign Population," OECD Data, accessed July 31, 2017, data.oecd.org/migration/foreign-population.htm#indicator-chart; OECD, *International Migration Outlook 2017* (Paris: OECD Publishing, 2017), 296–97.

FIGURE 3. FOREIGN-BORN IMMIGRANTS AS A PERCENTAGE OF TOTAL POPULATION



Sources: Organisation for Economic Co-operation and Development, "Foreign Population," OECD Data, accessed July 31, 2017, data.oecd.org/migration/foreign-population.htm#indicator-chart; OECD, *International Migration Outlook 2017* (Paris: OECD Publishing, 2017), 296–97.

Both Canada and Australia draw from some of the same major source countries as the United States. In the most recent decade (2005–2015), the top four source countries for immigrants to the United States have been Mexico, followed by China, India, and the Philippines. In Canada, the top four source countries have been India, followed by China, the Philippines, and Pakistan. In Australia the top four have been New Zealand, followed by the United Kingdom, India, and China. One need only visit Toronto or Vancouver in Canada or Sydney or Melbourne in Australia to see the ethnic diversity of their societies.

By every generally accepted measure, Canada and Australia are both successful pluralistic democracies with advanced, open-market economies. Their ongoing experience with higher levels of immigration than the United States relative to their populations demonstrates that Americans should not fear the consequences of a measured increase in employment-based and overall immigration levels.

Changing the Mix: More STEM Workers, Fewer Extended Family Members

A reformed US immigration system should raise the total cap on immigrants allowed while significantly increasing the number of permanent immigrant visas issued based on employment.

Under current US law, slightly more than 1 million foreign-born people are being granted lawful permanent resident status each year. In the decade from 2006 through 2015, the number of LPR visas granted averaged 1,075,090 per fiscal year (October 1 through September 30). Of that number, only 151,489 were issued under employment-based preferences. Another 224,576 were issued to refugees, asylees, diversity lottery winners, and other smaller categories. Almost two-thirds of the visas, an average of 699,025 per year, were issued on the basis of family connections.⁴⁷ The numbers of different types of immigrants obtaining LPR status in the 2006–2015 period are shown in table 1.

Family reunification is an important aspect of any immigration system. US citizens who marry foreign-born nationals should be able to bring their spouses to the United States with the fewest possible delays. In the past decade, an average of 275,321 LPR visas per year were issued to the spouses of US citizens; that number is fully a quarter of all LPR visas issued each year and does not count toward the per-country quota caps. The foreign-born minor children of US citizens account for another 87,257 LPR visas in a typical year. Together, these visas issued to the most immediate relatives of US citizens account for one-third of all LPR visas granted in a typical year. Such LPR admissions should be considered the core of family reunification under the US immigration system.

Next in the expanding circle of family-based immigration are parents of US citizens. To sponsor a parent for legal permanent residency, the US citizen must be at least 21 years of age. The numbers of parents sponsored has averaged 120,286 per year in the most recent decade. Like spouses and children of US citizens, their numbers do not count toward the per-country caps.⁴⁸

Further out are “family-sponsored preferences.” Under the four categories, 216,161 visas in total have been issued on average in 2006–2015. The number of such visas is capped each year, which results in waiting periods that can exceed 20 years for certain types of visas from certain countries. Here are the four categories:

- First preference is for unmarried adult (age 21 and older) sons and daughters of US citizens and their minor children, if any.

47. Department of Homeland Security, “Table 6. Persons Obtaining Lawful Permanent Resident Status by Type and Major Class of Admission: Fiscal Years 2013 to 2015.”

48. Department of Homeland Security, “Table 6. Persons Obtaining Lawful Permanent Resident Status by Type and Major Class of Admission: Fiscal Years 2013 to 2015.”

TABLE 1. PERSONS OBTAINING LAWFUL PERMANENT RESIDENT STATUS BY TYPE AND MAJOR CLASS OF ADMISSION, FISCAL YEARS 2006–2015

Type and class of admission	2006–2015 averages	Revised admissions	Change
Total	1,075,090	1,400,000	324,911
Employment-based preferences	151,489	600,000	448,511
First: priority workers	36,810		
Second: professionals with advanced degrees or aliens of exceptional ability	50,958		
Third: skilled workers, professionals, and unskilled workers	50,449		
Fourth: certain special immigrants	8,421		
Fifth: employment creation (investors)	4,851		
Immediate relatives of US citizens	482,864	540,000	57,136
Spouses	275,321		
Minor children	87,257		
Parents	120,286		
Family-sponsored preferences	216,161	80,000	(136,161)
First: unmarried adult sons and daughters of US citizens and their children	24,796		
Second: spouses, minor children, and unmarried adult sons and daughters of lawful permanent residents	101,029		
Third: married sons and daughters of US citizens and their spouses and minor children	25,097		
Fourth: brothers and sisters of US citizens (at least 21 years of age) and their spouses and minor children	65,238		
Humanitarian, diversity, and other	224,576	180,000	(44,576)
Diversity	46,347		
Refugees	96,662		
Asylees	59,095		
All other	22,472		
Parolees	1,430		
Children born abroad to alien residents	608		
Nicaraguan Adjustment and Central American Relief Act (NACARA)	244		
Cancellation of removal	10,188		
Haitian Refugee Immigration Fairness Act (HRIFA)	868		
Other	9,135		

Source: Department of Homeland Security, "Table 6. Persons Obtaining Lawful Permanent Resident Status by Type and Major Class of Admission: Fiscal Years 2013 to 2015," in *2015 Yearbook of Immigration Statistics* (Washington, DC: Office of Immigration Statistics, 2016).

- Second preference is for spouses, minor children, and unmarried adult sons and daughters of lawful permanent residents.⁴⁹
- Third preference is for married sons and daughters of US citizens and their spouses and minor children.
- Fourth preference is for brothers and sisters of US citizens and their spouses and minor children (provided the US citizens are at least 21 years of age).⁵⁰

Together, the foreign-born parents of US citizens and the four family-sponsored preference categories accounted for an annual average of 336,446 LPR admissions, or 31.3 percent of all admissions during the most recent decade.

Under the “humanitarian, diversity, and other” categories, a combined average of 224,576 LPR visas have been granted per year in the past decade. That total includes an average of 46,347 visas under the diversity lottery program.

The remaining 15 percent of LPR visas are awarded under five employment-based preference categories, which are subject to an annual total cap:

- First, priority workers.
- Second, professionals with advanced degrees or aliens of exceptional ability.
- Third, skilled workers, professionals, and unskilled workers.
- Fourth, certain special immigrants.
- Fifth, employment creation (investors).⁵¹

To better serve America’s economic needs in the 21st century, the country’s immigration system should be transformed to welcome a significantly larger number of highly skilled foreign-born workers while adjusting some of the family preference categories downward to also reflect the changing realities of modern travel and communications that allow families to remain connected even when living in different countries.

49. Bureau of Consular Affairs, US Department of State, “Family-Based Immigrant Visas,” US Visas home page, accessed October 10, 2017, <https://travel.state.gov/content/visas/en/immigrate/family/family-preference.html>. According to the US Department of State, 77 percent of all second-preference visas go to the spouses and minor children of legal permanent residents; the remainder is allocated to unmarried adult sons and daughters.

50. It is worth noting that categories for sponsorship do not include grandparents, aunts, uncles, in-laws, and cousins.

51. Department of Homeland Security, “Table 6. Persons Obtaining Lawful Permanent Resident Status by Type and Major Class of Admission: Fiscal Years 2013 to 2015.”

“The point would be to dramatically increase the number of higher-skilled foreign-born workers in the US economy. Such an increase would . . . boost US economic growth, innovation, and productivity.”

Specifically, the US immigration system should increase the annual number of available employment-based permanent visas fourfold, to 600,000 per year. An increase of that magnitude would be sufficient to meet the labor demands of US industry and would allow the US immigration rate to grow to a level consistent with the historical average. The additional visas could be increased proportionately among the major employment-based preference categories or realigned according to more specific needs of the US labor market and industry. But the point would be to dramatically increase the number of higher-skilled foreign-born workers in the US economy. Such an increase would, for the reasons outlined previously, boost US economic growth, innovation, and productivity, while mitigating the decline of US labor-force growth and improving the fiscal position of the US government.

At the same time, the US government could scale back certain categories of family-sponsored immigration without sacrificing the core family reunification of US citizens and their spouses and minor children. The world has changed in fundamental ways since the 1965 Immigration and Nationality Act, in ways that enhance the ability of families to remain connected over great distances. Immigrating to another country 50 or 100 years ago commonly meant almost total and permanent separation from one’s extended family back in the home country. This was especially true if the home country’s government was oppressive or hostile to the West, which was a reality during much of the Cold War. As authors Pia Orrenius and Madeline Zavodny note in their 2013 book, *Beside the Golden Door*:

Humanitarian considerations in favor of family reunification were more compelling in the Cold War era when they were implemented. At that time, many families separated by migration would never see each other again. Nowadays, separation does not impose the same hardships it once did. The collapse of the Iron Curtain and falling costs

of travel and communications help family members remain connected even if they live in different countries.⁵²

As a general rule, immigrants admitted under family reunification preferences tend to be less educated than those admitted under employment-based criteria. They are also less likely to be living in the United States on a temporary, nonimmigrant visa when granted LPR status and thus tend to be behind in assimilation and English language fluency.⁵³ Reducing the family categories would also address concerns, however exaggerated, about chain migration to the United States.

A reorientation of the US immigration system should include the elimination or reduction of certain family preference categories. The guiding principle should be to preserve the reunification of nuclear families, defined as spouses and minor children, while other adults seeking to immigrate should be expected, as a general rule, to apply for LPR status directly through employment or other nonfamily categories.

In practice, this would mean a sharp reduction in LPR visas for the parents of adult US citizens. The foreign-born parents of US citizens could still be allowed to live in the United States if the sponsoring adult children agree to take on all future costs of caring for their parents through retirement. A reorientation of the system should also include elimination of the first, third, and fourth family-sponsored preferences—for the adult sons and daughters of US citizens and their minor children, and for the siblings of US citizens and their spouses and children. Under the same principle, the diversity lottery program should be ended and the applicants to that program encouraged to seek admission through employment-based categories.

In broad strokes, such reforms would boost the total number of visas by a net 325,000, or 30 percent. These reforms would increase the number of employment-based visas by roughly 450,000. They would also increase visas for immediate family members—spouses and minor children—of the naturalized US citizens admitted through the increase in employment-based green cards. That increase would be offset by a reduction of 180,000 visas for other family categories and the diversity lottery. Under such a reorientation, family-based visas would still constitute 44 percent of the total, employment-based visas would

52. Orrenius and Zavodny, *Golden Door*, 87.

53. Department of Homeland Security, “Table 6. Persons Obtaining Lawful Permanent Resident Status by Type and Major Class of Admission: Fiscal Years 2013 to 2015.”

account for 43 percent, and humanitarian and other visas would make up the remaining 13 percent.

Reforming the US immigration system in a more employment-oriented direction would achieve the objectives of promoting greater economic growth while preserving the core principle of family reunification that has been a key feature of the system for decades.

ALLOCATING VISAS BY HARNESSING A DEMAND-DRIVEN MARKET

An important aspect of any immigration system is how the visas are allocated. The admirers of the Canadian and Australian immigration systems often praise the “point system” that both those governments have used to judge whether or not to accept certain immigrants. Those systems assess points based on such criteria as age, education, and English proficiency. Once admitted, the immigrants seek employment opportunities that match their skills. This is considered a “supply-side” or “merit-based” immigration system, with an emphasis on the government determining the right kind of supply of labor needed by the economy and industry.

The other main approach is a “demand-side” or “employer-driven” immigration system, with the key qualification for entry being an actual job offer from an employer. The demand-side system emphasizes employers’ important role in selecting who will be admitted to the country as temporary or permanent immigrant workers. This more closely characterizes the system in the United States and the European Union.

The Many Problems of a Supply-Side Point System

A supply-side system gives the government more direct control over what kind of foreign-born workers enter the workforce, but it also can lead to a mismatch between the skills of the admitted immigrants and the actual needs of domestic employers. A supply-side or points-based system can be more predictable but also less flexible to the changing needs of the economy.

Under a government-managed point system, immigrant applicants can exaggerate their credentials or language skills. Compared to private employers, the government may not have adequate resources or incentives to screen out such applicants. Highly educated immigrants who score well in a government-created point system may also find themselves underemployed because of a lack

of demand for their specific skills in the private labor market.⁵⁴ The supply of applicants under a point system can exceed the demand, creating waiting lists of applicants in which the most skilled and employable are not necessarily those at the front the of line.⁵⁵

In Canada, evidence from the point system suggests that the education, experience, and language skills of the immigrants admitted under the system have disappointed a significant number of employers in Canada. This dissatisfaction prompted the government to contract third parties to test the language skills of foreign-born job candidates as part of the admission process.⁵⁶

As further evidence of the mismatch, foreign-born workers in the STEM fields in Canada are less likely to be employed in STEM than foreign-born workers in the United States, a difference that is most notable among PhD holders.⁵⁷ In Australia, the unemployment rate among immigrants who had applied from abroad through the points system was much higher in late 2013 than among those who had entered with a job offer.⁵⁸

A demand-driven admissions process is more likely to result in a closer match between the needs of employers and the overall economy and the skills and experience of the admitted foreign-born workers. A demand-driven system relies on a bottom-up approach driven by market signals, rather than a top-down, supply-side system driven by government forecasts about the kinds of workers an economy will supposedly need. As a recent analysis of global talent flows concluded,

In employment-based regimes, labor markets—via employers—play a more direct role in determining the level and compensation of skilled migration flows. An advantage of this approach relative to the points-based approach is that employers choose whom they want, and immigrants have a job upon arrival. This employer-employee match is guaranteed to connect the immigrant talent with a productive and commensurate job.⁵⁹

As a result, Canada, Australia, and other countries have been shifting away from the “merit-based” point system approach to one that is driven by the actual

54. Pekkala Kerr et al., “Global Talent Flows,” 98.

55. “Immigration Systems: What’s the Point?,” *Economist*, July 7, 2016.

56. NASEM, *Immigration Policy and the Search for Skilled Workers: Summary of a Workshop* (Washington, DC: National Academies Press, 2015), 37.

57. NASEM, *Immigration Policy and the Search for Skilled Workers*, 37.

58. “Immigration Systems: What’s the Point?,” *Economist*.

59. Pekkala Kerr et al., “Global Talent Flows,” 99.

demand of employers. Both countries now give weight to job experience in the domestic economy. In Canada, the system has been revised so that preference is given to skilled applicants with a job offer over any other applicant—no matter how well qualified on paper—who does not have an offer.⁶⁰

A Two-Step Process: From Temporary Worker to Permanent Immigrant

The best system for admitting immigrant workers would be one driven primarily by the needs of the domestic employers in an evolving economy. One approach would be a two-step process in which foreign-born workers enter initially as temporary workers, through such existing channels as the H-1B nonimmigrant visa program for higher-skilled workers. Such workers could then be sponsored by employers or apply directly for permanent green card visas based on their employment history. The US H-1B visa already contains a “dual intent” feature that allows the visa to be used at the same time that the worker is applying for an employment-based permanent immigrant visa.

The advantage of a two-step process from temporary to permanent admission is that foreign-born workers receiving green cards would already have proven their worth to US employers. They would also have gained valuable and relevant experience in the US workplace and society, increasing the chances that they will become successful LPRs and eventual citizens. This two-step process also offers a probationary period in which their temporary visas can be revoked or allowed to expire should workers prove unemployable in their field. Workers in the United States on nonimmigrant visas may also decide to leave after their temporary employment concludes, as about half the H-1B workers do.⁶¹

Along with expanding employment-based permanent immigrant visas, the US government should significantly expand the H-1B visas available to foreign-born workers with four-year and graduate degrees. The number of visas issued each year for private industry has remained at 85,000 since the early 2000s. Except in the immediate aftermath of the dot-com recession of 2001, the demand for H-1B visas has exceeded supply every year. When the visas become available on April 1 for the following fiscal year, they are typically all claimed within a few weeks or even days. The shortage of visas means that well-trained and employable STEM workers and graduates go to other

60. “Immigration Systems: What’s the Point?,” *Economist*.

61. Orrenius and Zavodny, *Golden Door*, 63.

countries for employment. US industry and the US economy suffer for lack of sufficient workers and human capital. This self-defeating cap on global talent may be one of the reasons why US productivity growth in the past decade has been so disappointing.⁶²

Congress should repeal the per-country quota caps and increase LPR visas for high-skilled workers. Those caps limit the number of family and employment preference visas that can be issued to people from any one country to 7 percent of the annual total. That is an effective cap of about 25,000 per country. The cap is currently binding for potential immigrants from China, India, Mexico, and the Philippines, which creates long waiting lines for employment visas. This is true even when employers are ready to hire immigrants who have proven to be productive employees while on temporary visas.⁶³ The caps discriminate against potential immigrants based solely on their place of birth and have the practical effect of denying LPR status to well-qualified candidates who have proven their value to their employers and the US economy.

A greater number of temporary, nonimmigrant visas should also be extended to lower-skilled foreign-born workers who are in demand in other sectors of the economy. The number of visas should be expanded beyond the number currently offered for seasonal programs such as the H-2A visas for agricultural workers and H-2B visas for nonagricultural workers. Such visas should be enhanced to allow for year-round employment to better meet the needs of the many sectors that are nonseasonal. Paperwork should be reduced to make the programs more attractive to employers and to reduce incentives for illegal immigration. Concerns about the fiscal impact of temporary low-skilled immigrants can be reduced by limiting their access to government income-support programs and by limiting the terms of their temporary visas to their prime working years, when their tax payments are greater and their use of government services is lower.⁶⁴

Boosting the number of temporary visas for lower-skilled foreign-born workers would have the additional benefit of reducing incentives for illegal immigration. Employers would prefer the stability and predictability of a system that allowed a sufficient number of low-skilled workers to enter the United States legally. Potential foreign-born workers would prefer to enter the country legally, to avoid the risk and expense of illegal entry and to enjoy the other benefits that

62. Slaughter, "Contributions to America," 12.

63. Orrenius and Zavodny, *Golden Door*, 20.

64. NASEM, *Economic and Fiscal Consequences of Immigration*, 421.

documentation offers, such as legal protections, greater attractiveness to employers, and the resulting increased compensation.⁶⁵

All temporary, nonimmigrant visas should be portable between employers so that workers can easily change jobs if the compensation and working conditions are unsatisfactory. This is the best protection against any kind of exploitation of foreign-born workers by US employers. The competition among employers to retain qualified workers puts upward pressure on wages and benefits. It further ensures that foreign-born workers are paid competitive wages and do not undercut native-born workers. To protect taxpayers, all visas should bar the holder from collecting any government income support and should expire within a limited time if the holder becomes unemployed.

Set Visa Fees to Test the Market, Raise Revenue

Any fiscal impact of immigration reform could be further offset by imposing fees on applications. Fees would raise government revenue while also helping to alleviate concerns that foreign-born workers would be preferred over equally qualified native-born workers. An annual fee of \$5,000 for each H-1B visa and \$2,000 for the expanded lower-skilled visas would raise significant annual revenue for the federal government. A total of 300,000 temporary visas for higher-skilled workers would produce an annual revenue stream of \$1.5 billion, and a total of 300,000 temporary visas for low-skilled workers would generate \$600 million. That would contribute a stream of revenue to the federal government over a 10-year budget period of more than \$20 billion.

There are two major advantages of a fee-based system. First, it would provide a market test for the need for the foreign workers. And second, it would raise revenue for the government to offset administrative costs and grant taxpayers some of the economic gains from immigration. Employers would not spend the money for the fees and other expenses unless the workers would return at least that value to the company through their work. The fee would replace the bureaucratic approach of requiring the employer to go through the labor qualification regulations. In describing a similar permit system, authors Orenius and Zavodny concluded, “The permit will better protect US workers than labor market testing does under the current system. And at the end of the day,

65. For a more detailed discussion of the benefits of expanding temporary low-skilled migration to the United States, see Alex Nowrasteh, “Enforcement Didn’t End Unlawful Immigration in 1950s, More Visas Did” (Cato at Liberty, Cato Institute, Washington, DC, November 11, 2015); and Stuart Anderson, “More Work Visas, Less Illegal Immigration,” *Forbes*, October 5, 2015.

the permit system essentially acts as a way of transferring some of the gains from migration from foreign workers to US taxpayers.”⁶⁶

CONCLUSION: THE BENEFITS OF PRO-GROWTH IMMIGRATION REFORM

Immigration has been and continues to be a blessing to the United States, to the economy, to American society and culture, and to the well-being of a large majority of American citizens. The US immigration system, however, is failing to maximize the potential benefits for the nation.

To capture more of the potential gains for the United States, Congress should undertake a fundamental reform of the US immigration system. The core provisions of the reform should include the following:

- A large increase in permanent immigrant visas for high-skilled workers who are employed or who receive an offer of employment from a US-based company;
- The reduction in certain family immigration categories for extended family members of US citizens, including parents, adult children, and siblings of US citizens;
- An allocation system that avoids the shortcomings of a top-down, supply-side approach while relying primarily on employer demand;
- A significant expansion of temporary visa programs for both higher- and lower-skilled workers to meet the evolving demands of the US labor market and economy; and
- A fee-based temporary visa system to regulate demand while generating additional revenue.

Immigration reform in the direction outlined in this paper would yield tangible benefits for the majority of

“Immigration has been and continues to be a blessing to the United States, to the economy, to American society and culture, and to the well-being of a large majority of American citizens.”

66. Orrenius and Zavodny, *Golden Door*, 76.

Americans. It would boost US economic growth, not only by expanding the supply of labor in the economy but, just as importantly, by raising the average productivity across all workers, which is the foundation for rising living standards. It would create more job opportunities for native-born Americans in sectors of the economy that would be further stimulated by the availability of immigrant workers. It would boost the living standards of the large majority of Americans who do not compete directly with immigrants. It would expand America's high-technology sectors by spurring more innovation and entrepreneurial activity. It would generate net revenue for the government and extend the solvency of federal retirement programs. And it would slow the demographic decline of the American workforce, helping to maintain America's economic weight and influence in the world.

An immigration system reformed to meet the nation's needs in the 21st century would be consistent with the experience of other advanced nations and with the history of the United States itself.

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ABOUT THE MERCATUS CENTER AT GEORGE MASON UNIVERSITY

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