



Immigration Reform Is Key in the Recovery from the COVID-19 Crisis

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RECENT CHANGES IN POLICY ARE ILL-ADVISED

Recent immigration policies regarding F-1 student visas and H-1B work visas, aligned with the protectionist executive order known as “Buy American and Hire American,” introduced by the Trump administration in 2017, have been reducing the application rates of foreigners wishing to enter universities and the workforce in the United States. This reduces America’s access to a significant number of talented and creative people and the associated benefits.

During the past two years, foreign students have increasingly shown a preference for universities in Australia, Canada, and the United Kingdom over universities in America. One reason is the desire to avoid onerous visa rules while getting equally good education. Similarly, the application rates for H-1B visas have been declining while rates of visa denial have been increasing.¹ If current visa policy stands, it is likely that COVID-19 will further limit foreign student admissions to US universities in the coming year and perhaps beyond. This will have long-lasting effects on innovation and economic growth. Therefore, policymakers should treat the COVID-19 pandemic as a unique opportunity to relax or reverse current restrictive policies regarding student visas and H-1B visas. Effective reforms will attract bright young people who will enrich American society in many ways, not least of which being their contribution to innovation and the entrepreneurial spirit that makes the United States an economic powerhouse.

In response to the COVID-19 pandemic, the Mercatus Center has commissioned this series of working papers and policy briefs to promote effective ideas among key decision makers. These publications have been internally reviewed but not peer reviewed.

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THE EFFECTS OF THE 2017 EXECUTIVE ORDER ON F-1 AND H-1B VISAS

F-1 and H-1B visas were made to create a legal environment that would attract the brightest minds to the United States. Over the years, these visa programs have undergone numerous changes. The president's Buy American and Hire American executive order,² signed in April 2017, led to the heightened screening and vetting of applications for visas and other immigrant benefits.³ In the wake of the executive order, the number of F-1 student visas decreased 35 percent during the 2017–2019 period from the average of the three years (2014–2016) preceding the policy change.⁴

Moreover, since the signing of the executive order, the Trump administration has been looking for other ways to create more restrictive rules that would affect the inflow of foreign students. For example, in August 2018, US Citizenship and Immigration Services (USCIS) proposed a policy regarding unlawful presence targeting F-1 student visa holders.⁵ The proposed rule was subsequently blocked by a court injunction.⁶ In February 2020, Immigration and Customs Enforcement proposed a regulatory change that would set a “maximum period of authorized stay for students” and eliminate “duration of status.”⁷ If approved, this change would require students to get additional approvals by USCIS throughout their program of study, which would create extra costs for students, lead to arbitrary decisions by USCIS officers, and make students uncertain about their ability to finish their studies. Other recent changes include increased student visa application fees and even longer processing delays.⁸

In Canada, by contrast, regulations are far more liberal, and graduating foreign students automatically qualify for work permits. Canada's immigration department introduced the Express Entry program in November 2016, which simplified the process for international students to become permanent residents.⁹ Canadian policies have helped attract about 16 percent more international students to Canadian universities in 2018 alone than in the previous year, with an overall increase of 73 percent during the 2014–2018 period.¹⁰

According to the Institute of International Education, international students contributed \$44.7 billion to the US economy in 2018 and supported 458,290 jobs during the 2018/19 academic year.¹¹ The proposed restrictions, which could reduce international student enrollment by 35 percent and Optional Practical Training (OPT) participation by 60 percent, are therefore likely to negatively affect real GDP and real wages while contributing to the loss of about 443,000 jobs, including those held by native-born workers.¹² This evidence runs opposite to protectionist narratives of foreigners taking jobs away from native-born workers.

The H-1B visa program was originally implemented to encourage applications from workers in specialty occupations, such as information technology, science, medicine, and others. However, recent changes in the visa program, including the increase of the minimum required salary from \$60,000 to \$130,000 for the potential visa holder, have made it more costly for American companies to hire foreign workers. The result is a redirection of these talents elsewhere, depriving

the United States of a significant resource for innovation. There is certainly greater economic potential in having more qualified workers under the visa program, as evidenced by the fact that the number of applications for H-1B visas exceeds the limit year after year.¹³ The number of H-1B visas issued for temporary workers of distinguished merit and ability for the 2015–2019 period increased by 8 percent, from 172,748 to 188,123, indicating consistent demand for talent. On the other hand, according to the most recent National Foundation for American Policy (NFAP) report, which is based on an analysis of USCIS data, “more restrictive Trump administration policies have increased denials for H-1B petitions significantly, with denial rates rising from 6% in FY 2015 to 21% in FY 2019 for new H-1B petitions for initial employment.”¹⁴ A study by economists at the University of California finds that following the 2008 recession, job growth would have been at least 55 percent faster if all H-1B visas had been awarded to those applying. Therefore, the current restrictive trends are detrimental to the US economy overall, and especially during recoveries from economic downturns.¹⁵

EXTANT EVIDENCE OF THE BOON OF IMMIGRATION

Extensive research in the field of immigration for the purposes of obtaining higher education and employment in the United States has demonstrated that immigrants are highly entrepreneurial. A study conducted by scholars at Stanford University examines the productive contributions of immigrant inventors in the United States in comparison to the productive contributions of their native-born counterparts. The study finds that “immigrants account for 37% of total US innovation, despite only making up 16 percent of the inventor workforce.”¹⁶ Moreover, student immigrants are more likely to create successful startups than their native-born counterparts. Twenty-two percent of business founders in the United States came to the country as foreign students.¹⁷

The positive effects on productivity and innovation are also the result of collaboration and, overall, are remarkable contributions to economic progress. Another study of H-1B visa data by scholars at the Mercatus Center at George Mason University shows that “for every temporary foreign worker hired by a US firm, 5 to 7.5 new domestic jobs are created in that firm’s industry.”¹⁸ This naturally creates new opportunities for collaboration and innovation along with many other economic benefits.

A team of scholars at Princeton University measured how much immigration boosts innovation, finding that “a college graduate immigrant contributes at least twice as much to patenting as his or her native counterpart.”¹⁹ They further specified that the presence of immigrants provides an additional overall benefit, assuming that in their native countries immigrants would have been less innovative owing to distorted incentives. Consequently, US native-born citizens benefit directly from increased innovation and commercialization while global markets reap a secondary benefit that would otherwise go unrealized.

Another study finds that immigrants seeking education and application of their skills in the United States outperform college-educated natives in terms of the numbers of patents and licenses granted as well as the commercialization of new ideas. These immigrants originally “entered the United States on a student/trainee visa or a temporary work visa,”²⁰ and their success “is explained by their different fields of study and higher level of education” than native-born college graduates,²¹ according to the study. This finding supports the assertion that F-1 visa rules must be reformed to establish a clear path from F-1 status to H-1B status, which will capitalize on the talent being fostered in US universities and create economic opportunity more rapidly.

Perhaps one of the more telling recognitions of immigrant contribution to research and discovery in the scientific fields is that American “immigrants have been awarded 38%, or 36 out of 95, of the Nobel Prizes won by Americans in Chemistry, Medicine and Physics since 2000,”²² according to an NFAP report from 2019. From 1901 to 2019, 35 percent of all American Nobel Prize winners in chemistry, medicine, and physics were immigrants. The natural conclusion, therefore, is that a healthy inflow of immigrants is crucial to creating a robust economy and vibrant society able to address critical issues both in normal times and in times of crisis.

POLICY RECOMMENDATIONS

The effects of the COVID-19 pandemic on migration will likely range from persistent travel restrictions to fear of accepting more immigrants to the outflow of migrants who currently live in the United States.²³ And while it may be difficult to control the virus, it is still possible to create a wise immigration policy that empowers people to innovate. The sooner policies are adjusted, the better the chances are for the United States to be resilient in its response to the economic challenges of the post-COVID-19 world. Reversal of the recent policy modification per the 2017 executive order, which would restore the original intent of the F-1 and H-1B visa programs, is a first step.

Regarding F-1 student visas, application fees should be lowered and incentives should be created for greater immigrant integration into the economy. For example, students should be allowed and encouraged to work off campus in jobs related to their field of study. This policy adjustment would align with Canadian student visa policies.

Further, upon completing a program of study, which presents a significant economic cost to the student, it makes sense to allow graduates to more easily transition to H-1B status through, for example, a clearly defined change-of-status process.²⁴ Current regulations require that students with F-1 visas leave the United States as soon as they finish their programs, squandering an opportunity to leverage their unique skills and human capital.

Additionally, the current rule creates incentives for corruption. OPT allows a three-year extension for F-1 visa holders to work in the United States. The idea is that this period allows these work-

ers to gain practical experience. However, in some cases this has led to corruption in the form of false employment in shell companies by foreign students from countries such as China and India who wish to remain in the United States.²⁵ Liberalization of policies regarding the transition from F-1 status to H-1B status could reduce this corruption. Reformed policies would give students incentives to seek legal ways of remaining in the country after graduation and would allow for the demand for talent to be determined by American businesses. Clarity and simplification of the immigration policy will produce economic benefits and could reduce economic costs such as those associated with the abuse of the system.

As for H-1B visas, application fees should be lowered to at least their previous levels to reduce costs for US employers and to provide incentives for more immigrants to apply. Further, application caps and the related lottery system should be liberalized to attract talented workers. Rather than keeping the H-1B visa cap at the same, arbitrarily set level of 85,000 visas per year, policy should be reformed to reflect market-driven data on how many applications have been submitted by companies in the previous year. A more radical approach is removing the cap altogether. This will allow businesses to define the demand for immigrant talent in the economy, which would help increase immigration of high-skilled into the United States to a level that is more consistent with demand. This option would be preferable for the time of crisis and beyond. It would create a much stronger public-private collaboration in terms of immigration, and it would allow states, universities, and businesses to intensify their efforts to encourage highly qualified, entrepreneurial foreigners to apply for these visa programs.

CONCLUSION

The COVID-19 pandemic presents a unique opportunity. While many countries are tightening immigration restrictions, the US government could instead lower barriers to entry, which would attract talent and capitalize on the significant economic benefits of immigration as America recovers from the crisis.

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