CHAPTER 9

Immigration

Immigrants play a vital role in the dynamic U.S. economy. Understanding the forces that drive immigration can help us design more effective immigration policies. This chapter discusses the economics of immigration; the incentive effects of immigration policies on migrants, native workers, and employers; and the benefits of comprehensive immigration policy reform.

The United States is a nation of immigrants and a nation of laws, and we value both historical legacies. Although immigrants continue to make positive contributions to our nation and our economy, our current immigration laws have proven difficult to enforce and are not fully serving the needs of the American economy. It is unofficially estimated that between 11 and 12 million foreign-born persons reside in the United States illegally, almost one-third of the total foreign-born population and about four percent of the total U.S. population.

Effective immigration policy can curtail illegal immigration and at the same time promote America's national and economic interests. Comprehensive immigration policy reform, which combines more effective enforcement capabilities and a temporary worker program, is the most promising route to an immigration system that is legally functional, security conscious, economically beneficial, and humane. In this comprehensive approach, the various elements of policy reform reinforce and enhance one another. In contrast, any given partial reform, standing alone and without the reinforcing measures that characterize the comprehensive approach, cannot fully address the problems and engage the opportunities that accompany immigration.

The key points of this chapter are:

- International differences in economic opportunities and standards of living create strong incentives for labor migration. Once established, migration flows from a certain region tend to be self-perpetuating because past migrants facilitate the movement of new migrants, employers become familiar with the migrant group, and U.S. immigration policy favors family reunification. A large supply of potential migrants will exist for decades to come.
- Foreign-born workers make significant contributions to the American economy, but not all Americans gain economically from immigration. Understanding the labor-market effects of immigration requires consideration of the migrants' skill mix and the capital-accumulation response to labor force growth. Foreign-born workers tend to be concentrated at

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the low end and the high end of the educational spectrum relative to native-born workers.

- Immigration policy plays a key role in determining the volume and composition of the foreign-born workforce. Comprehensive immigration reform can help ensure an orderly, lawful flow of foreign-born workers whose presence benefits the American economy.

The Economics of Immigration

International migration patterns are strongly influenced by the interaction of economic forces and public policy. In this sense migration is similar to other aspects of international economic integration and exchange, such as trade in goods and services and investment flows. The fundamental motivation for such movement—whether of goods, capital, or workers—is that people perceive more profitable economic opportunities abroad. The ultimate results are that the world's economy functions more efficiently, entrepreneurship is rewarded, and many Americans reap economic gains.

Compared to barriers to the movement of goods, policy restrictions on the international movement of labor are tight. Immigration policy determines the volume and composition of both permanent immigrants and temporary workers legally admitted to the United States. But many more people would like to come to the United States than are legally permitted to do so, and millions manage to reside and work here illegally. There is broad agreement among U.S. citizens that immigration policy needs to be reformed. To this end, the reform of U.S. immigration policy should be based on an understanding of the forces that drive migration, relevant lessons from American immigration history, and the ways in which immigration affects the economy. This chapter highlights some facts and principles that can help guide the design of a better immigration policy.

The Migration Decision and the Volume of International Migration

Economic analyses of migration typically start by imagining an individual who has many choices about where to live and work at various times in his life. If this person perceives that job opportunities and living conditions are approximately the same everywhere, then he will not have an economic motive to choose one place over another. More realistically, because migration costs time and money and often requires leaving behind one's friends and family and adjusting to a new culture and language, our imaginary individual will be strongly inclined to live and work near his original home. On the other

hand, if the same person perceives that incomes and living conditions differ significantly across places for workers with similar skills, then he might find it worthwhile to incur the costs of migration to secure a higher standard of living. In this sense, migration is like an investment decision—a cost is borne today in return for an increased flow of income and well-being in the future. Essentially, the potential migrant must decide whether the expected benefits from migration outweigh the expected costs.

From the perspective of workers in many countries today, the potential income gains from migration are large. One study measured average wages for Mexican-born men who had recently moved to the United States and compared them to the wages of similar men who were still working in Mexico. The real wage ratios (that is, wages adjusted for international differences in prices) ranged from about 6-to-1 to 2-to-1 in favor of the U.S.-based workers, depending on the age and education group. For example, in 2000 those who were 18 to 22 years old with 5 to 8 years of education earned $7.60 per hour in the United States compared to the equivalent of $1.56 per hour in Mexico. Another study compared the earnings of fast-food restaurant workers who performed nearly identical jobs but in different countries. Again, the real wages in the United States were much higher than in several less advanced economies.

Facing such large international wage differences, a worker might hope to move abroad permanently or with the expectation of returning home after accumulating a nest egg. Indeed, migrants often work intensively at relatively high wages (compared to home) and save or send back home a portion of their earnings. In this scenario the opportunity to work abroad temporarily can help finance large purchases or investments (like a house, car, or new business) in home countries where credit markets are underdeveloped and where wealth accumulation is difficult due to low wages. Migration might also allow households to expand and diversify their income sources, thereby serving as a lifeline to a higher and more stable income level for family members who remain based in a less-developed economy. The large volume of international remittances of migrants' earnings testifies to the strength of the links that migrants maintain with their home country. A recent study estimated that U.S.-based workers from Latin America sent home $45 billion in remittances in 2006, about 10 percent of their total earnings. Nearly three quarters of the migrants in the survey remitted some portion of their earnings.

The decision framework described thus far emphasizes a potential migrant's expectations regarding the future stream of income at home compared to that available abroad, after accounting for broadly defined migration costs (including transportation costs, time spent out of work, difficulties adjusting to a new culture and labor market, and perhaps fees paid to "coyotes" or other smugglers who facilitate illegal migration). But these are not the only

determinants of the migration decision. A potential migrant might consider the risk of unemployment, uncertainties associated with illegal status, and other sources of income variability in different locations. The migrant might also consider factors that are not narrowly economic but that certainly would count as "benefits from migration," such as family reunification or safety from religious or political persecution.

Even if the incentives to migrate are strong, however, the economic costs of migration might be impossible for poor workers to meet by saving or borrowing. Moreover, immigration policies often make it difficult for workers to relocate to high-wage countries, especially if they are not highly skilled or closely related to someone in the high-wage country who can sponsor their application for admission. In this sense, immigration policy acts as a filter that selectively allows some workers to migrate but also deters many potential migrants.

This simplified model of an individual's migration decision is a useful starting point for understanding the economic pressures for labor to move internationally. To make sense of the overall volume and composition of immigration, we must expand our scope to consider the sum of many individuals' migration decisions and the role of immigration policy. Within any given country, some inhabitants might perceive promising economic opportunities abroad whereas others do not; some might have sufficient means to finance the move whereas others do not; and some might have family connections or skills that make it easy for them to relocate legally whereas others do not. Against this backdrop, events (such as economic or political crises) that widen international gaps in expected well-being or that lower the costs of international movement will tend to amplify the volume of international migration because a higher proportion of any given population will find it optimal or feasible to relocate. Working in the other direction, events that narrow gaps in expected well-being and policies that make it more difficult for people to relocate will tend to dampen the volume of international mobility.

The immigration pressures felt by virtually all high-income countries today reflect the ongoing tension between declining costs of migration and persistent international differences in material standards of living, on one hand, and policy responses that seek to manage the inflow of foreign-born persons, on the other. In this context, the flow of legal migration is determined by selective immigration policies. In the United States, these policies facilitate permanent immigration for family reunification and, to a lesser degree, for those with high levels of skill. For other workers, legal channels for migration are narrow while the economic incentives, underpinned by labor demand from U.S. employers and consumers, remain strong. Consequently, many seek employment through illegal channels.

Lessons from American Immigration History

The surge of immigration in recent decades is not unprecedented, and we can better understand the economics of immigration by examining the current situation in light of historical experience. In the decades after the Revolutionary War, migration to the United States was hindered by the high costs of international transport, the relative immobility and poverty of agrarian populations in potential emigrating regions, and political disruptions to international economic integration. By the 1840s, however, economic, technological, and political conditions had combined to launch the first era of voluntary mass migration. The first big waves of U.S.-bound migration originated in northwest Europe, but by the end of the nineteenth century migrants from eastern and southern Europe dominated the immigration flow. The foreign-born proportion of the U.S. population increased from 9.7 percent in 1850 (the earliest census to record place of birth) to 14.4 percent in 1870, and it hovered around 14 percent until 1910 when it began to decline steadily. In recent decades it has risen again, and in 2005 the foreign-born proportion of the population reached approximately 12.4 percent.

The mass migration of labor between 1840 and 1914, along with extensive trade in goods and capital mobility, contributed to a high degree of global economic integration that in many ways was a precursor to our more recent and familiar era of globalization. World War I abruptly curtailed the earlier era of globalization, and the political and economic turbulence of subsequent decades further disintegrated the international economy. Since World War II, policymakers have worked toward re-integrating the global flow of goods, services, and capital. However, in comparison with the pre-1914 era, significant policy restrictions on the international movement of labor remain in place.

Four historical lessons are especially relevant for contemporary thinking about American immigration and the policies that manage the inflow of foreign-born workers. First, migration to the United States has always reflected the relatively high level of labor productivity here. In the previous section, we cited the wage gap between the United States and Mexico. Similarly, estimates of real wage gaps in the late nineteenth century suggest that U.S. wages were often 1.5 to 4 times higher than those available in Europe. Thus, immigration is a sign of our economy's ongoing success and the relatively high rewards that it has long offered its workers. While immigration policy reform is surely necessary, we should be glad that after more than 200 years the United States is still a magnet for ambitious foreign workers.

Second, immigration flows are often self-propagating. From the perspective of a potential migrant, the cost of migration drops sharply when one has a number of friends and family abroad who can help locate employment and housing opportunities and who can provide a sense of community. One

consequence of this self-propagating mechanism is that macroeconomic and political shocks can have long-lasting ramifications for American immigration patterns. The Irish famine in the late 1840s is a salient example of how a dire economic situation abroad accelerated a process of mass migration that continued long after famine conditions had passed. Macroeconomic shocks in Mexico in recent decades, though far less severe than the Irish famine, may have had a similar effect. Durable networks of family, friends, and employers have always facilitated migration, especially given current policy preferences for family reunification.

The third historical lesson is that regions of emigration that are in the process of economic modernization and development often send out an increasing number of workers. Migration has always been a costly enterprise that the very poor cannot easily finance. As the process of modern economic development unfolds, a larger number of workers surpass the necessary threshold of wealth and education for long-distance migration; employment declines in the agricultural sector and young workers seek employment in urban areas at home and abroad; and stronger migrant networks and financial systems develop to facilitate long-distance movement. Along these lines, it has been argued that the spread of economic modernization in Mexico has promoted emigration even as it has raised gross domestic product (GDP) per worker. The ongoing process of economic development in many parts of the world may lead to a growing pool of potential international migrants for decades to come.

Eventually, at advanced stages of economic development when domestic wages rise to levels that are comparable to those that are available elsewhere, the rate of emigration from a particular place tends to decline. The long-run experience of parts of Europe that were massive exporters of labor in the late nineteenth and early twentieth centuries exemplifies this pattern of rising and then falling emigration rates. Thus, a secondary point is that the pool of potential migrants may change substantially as some countries enter into the process of economic modernization and as others reach comparatively high levels of economic development.

Fourth, the demographic structure of regions of emigration is relevant to the volume of international migration. Migrants to the United States have generally been drawn from the pool of relatively young workers. In 2005, for example, foreign-born persons who reported being in the United States for only one year (recent migrants) had a median age of 25, whereas the median age of native-born persons was 35. The young have the most to gain from migration, and they also have fewer ties binding them to a specific location in the home country. Relatively large groups of workers came of age in Mexico in the 1980s and 1990s, and emigration surged when the Mexican macroeconomy stumbled. Reinforcing the point made above, the sheer number of

young people in less advanced economies ensures that many foreign workers will be interested in migration opportunities in the future.

In sum, past experience and current economic and demographic realities suggest that the forces that attract migrants to the United States will continue to be strong in the twenty-first century. Managing the inflow of migrants is an important and complex challenge for policymakers. It demands a comprehensive immigration strategy that views the process for what it is and has always been for the United States—a significant contributor to labor force growth and vitality.

Foreign-Born Workers in the U.S. Labor Force

Foreign-born workers (the sum of both legal and illegal migrants) make up 15 percent of the total U.S. labor force, and since 1996 they have accounted for about half of the total growth in the labor force, thereby fueling macroeconomic growth. In 2005, foreign-born men had higher labor force participation rates than natives (81 percent compared to 72 percent), whereas foreign-born women worked somewhat less than their American counterparts (54 percent compared to 60 percent). Among those in the labor force, foreign-born men had lower unemployment rates than natives (4.1 percent compared to 5.3 percent), whereas foreign-born women had slightly higher unemployment rates than native women (5.4 percent compared to 5.0 percent).

At the high end of the skill spectrum, foreign-born workers were more likely than natives to work in computer, mathematics, architecture, engineering, and science occupations (6.5 percent of foreign born compared to 5.0 percent of natives). Lower in the skill spectrum, the foreign born were two to four times as likely as the native born to work in building and grounds cleaning and maintenance; farming, fishing and forestry; and construction and extraction occupations.

Tables 9-1 and 9-2 report more detailed occupational information for the foreign born. Table 9-1 lists the ten occupations that the foreign born are most likely to fill. For comparison, it also reports the proportion of native-born workers in the same set of occupations. Construction laborers, maids and housekeepers, janitors, and cooks are at the top of the foreign-born occupation list. Together these four occupational categories account for 11 percent of all foreign-born workers compared to about 4 percent of native-born workers. Table 9-2 lists the occupations that have the highest proportion of workers who are foreign born. Tailors and dressmakers, graders and sorters of agricultural products, miscellaneous personal appearance workers (such as manicurists), and plasterers and stucco masons are the occupations with the highest proportions of foreign-born workers, all with over 50 percent. The foreign born are also strongly represented among medical scientists (46 percent).

TABLE 9-1.— *Ten Most Common Occupations for Foreign-Born Workers, 2005*

Occupation	Proportion of Foreign Born (%)	Proportion of Native Born (%)
Construction labor	2.8	0.9
Maids and housekeepers	2.8	0.6
Janitors	2.7	1.4
Cooks	2.7	1.1
Cashiers	2.2	2.1
Drivers/sales workers and truck drivers	2.1	2.3
Grounds maintenance	2.1	0.6
Carpenters	2.0	1.0
Retail salesperson	1.8	2.5
Supervisors, retail sales	1.8	2.3

Note: The sample includes all employed individuals over the age of 15. The "Drivers/sales workers and truck drivers" category includes both truck drivers and those delivering goods in smaller vehicles.

Source: American Community Survey.

TABLE 9-2.— *Ten Occupations with the Highest Proportion of Foreign-Born Workers, 2005*

Occupation	Foreign-Born Proportion of All Workers (%)
Tailors, dressmakers, sewers	53
Graders and sorters (agriculture)	53
Miscellaneous personal appearance workers	52
Plasterers and stucco masons	52
Pressers, textile, garment, and related materials	49
Miscellaneous agriculture workers	49
Drywall, ceiling-tile installers and tapers	48
Sewing machine operators	48
Medical scientists	46
Maids and housekeepers	45

Note: The sample includes all employed individuals over the age of 15.

Source: American Community Survey.

In recent decades, a handful of states have absorbed the majority of foreign-born persons. In 2005, California, New York, Texas, and Florida together accounted for 57 percent of all the foreign born in the United States. The same states accounted for only 29 percent of the native-born U.S. population. These states still attract a large share of the foreign born, as one would expect given the importance of family and information networks in facilitating migration, but there is also evidence of significant gains in many other parts of the country. Georgia, for instance, gained more than 200,000 foreign-born persons between 2000 and 2005, raising its total foreign-born population by 38 percent. Several other states had comparable percentage increases, though smaller gains in absolute numbers. The largest percentage changes were in New Hampshire (51 percent) and South Carolina (50 percent). These geographic shifts reflect foreign-born workers' responsiveness to changes in labor demand across regions within the United States.

The Foreign-Born Skill Mix and the Labor Market Impact

The inflow of foreign-born labor has complex effects on the productivity and earnings of American factors of production—capital, land, and labor. To understand how immigration affects the labor market, it helps to consider the determinants of the skill mix among the foreign born and the nature of substitutability among different factors of production.

American immigration policy acts as a filter that strongly favors potential migrants with family connections to U.S. citizens and lawful permanent residents. In 2004, 946,142 persons were granted lawful permanent resident status. Forty-three percent were admitted as immediate relatives of U.S. citizens and an additional 23 percent were admitted under other family-based sponsorship. Only 16 percent were admitted under the employment-based preference category.

To some extent, this policy structure helps explain observed differences in the economic performance of immigrants from different countries. Most permanently admitted Mexican immigrants, for example, were selected on the basis of family connections rather than skills. Therefore, it is not surprising that as a group they do not fare as well economically as groups of migrants who were selected largely on the basis of their skills, such as those from India.

Out of the employment-based permanent admissions category, only 10,000 lawful permanent resident slots are reserved for less-skilled workers. For less-skilled seasonal workers, H-2A visas (for agriculture) and H-2B visas (for other sectors) admit workers for short durations and specific jobs. These visas help alleviate peak seasonal demands, but there is still demand for less-skilled workers to work for longer durations. In an environment in which unauthorized migrants can find employers without great difficulty, the mismatch between labor market forces and immigration policy has resulted in a large number of unauthorized migrant workers.

Standard surveys, such as the Current Population Survey, do not specifically identify the legal status of the foreign born. Therefore, it is difficult to measure and characterize the unauthorized population with precision. With this caveat in mind, Box 9-1 discusses current estimates of the illegal population's size and economic characteristics.

H-1B visas permit temporary employment for skilled professionals who are sponsored by a U.S. employer, typically in occupations in science, computers, or engineering. The worker can remain in H-1B status for up to six years. Current law permits only 65,000 new H-1B issuances per year, with some exceptions for those with advanced degrees from U.S. universities and those going to work for institutions of higher education or government research organizations. For fiscal year 2007, the H-1B application cap was reached in May 2006.

Box 9-1: The Number and Characteristics of Unauthorized Migrants

Due to the clandestine nature of illegal migration, the unauthorized foreign-born population cannot be precisely enumerated. Nonetheless, reasonable estimates have been made using data from the Census Bureau's Current Population Survey (CPS). The CPS data do not explicitly identify unauthorized individuals, but they do record a great deal of relevant information. Using an estimate of the number of *legal* foreign-born residents that is based on official U.S. immigration data, the total number of *illegal* migrants can then be estimated as the difference between the total foreign-born population and the number of foreign-born estimated to be present legally. In 2006, a study estimated that there were between 11 and 12 million unauthorized migrants residing in the United States, accounting for approximately 30 percent of the total foreign-born population. A related study estimated that between one third and one half of the unauthorized migrants entered the country legally but then overstayed their visas.

To provide more detailed characterizations, the study used statistical techniques to select a certain number of potentially unauthorized foreign-born residents from the March 2005 CPS. Keep in mind that the following conclusions are unofficial estimates. They are subject to error, but are also the best current characterization of the illegal population.

It appears that the labor force participation and occupational choices of unauthorized migrants differ substantially from that of the general U.S. population. Unauthorized adult males (ages 18 to 64) were more likely to participate in the labor force than their native counterparts (94 percent participation rate compared to 83 percent for natives). Unauthorized adult females were less likely than natives to participate in the labor force (54 percent participation rate compared to 72 percent for natives). In this case, the difference partly reflects the migrant women's higher likelihood of having young children in the household.

In general, unauthorized migrants were concentrated in jobs that require comparatively little formal education. Thus, they are under-represented relative to natives in "white collar" jobs in management, business, and professional occupations, and in sales and administrative support occupations. Relative to native-born workers, unauthorized migrants were highly concentrated in other service jobs (31 percent compared to 16); construction and extraction (19 percent compared to 6); production, installation, and repair (15 percent compared to 10); and farming (4 percent compared to 0.5). Although unauthorized migrants represented just 4.9 percent of the total U.S. labor force in 2005, they represented large proportions of the workforce in several specific occupations: 24 percent in

farming occupations, 17 percent in cleaning occupations, 14 percent in construction, and 12 percent in food preparation.

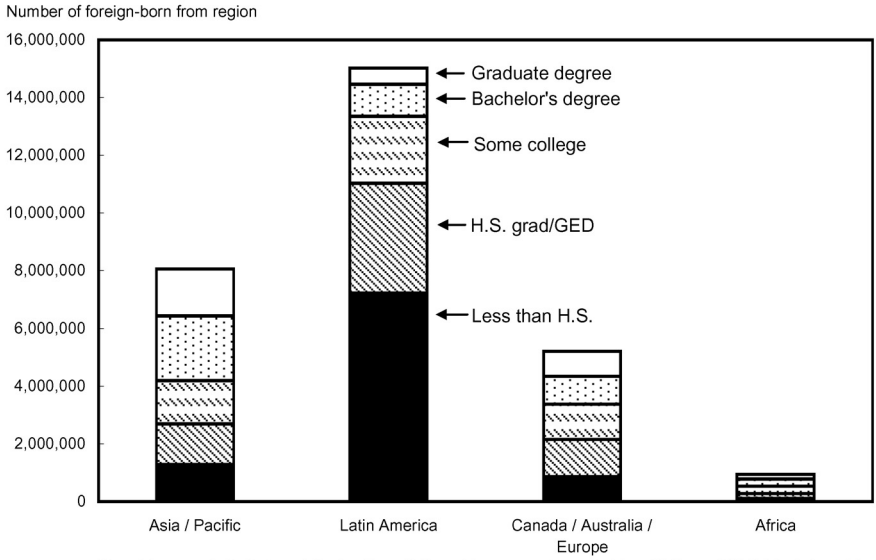
Approximately 40 percent of the unauthorized migrants had been in the country for five years or less. The vast majority of unauthorized migrants had come from Mexico (56 percent, or 6.2 million) and elsewhere in Latin America (22 percent, or 2.5 million).

Nearly half (5.4 million) of the unauthorized migrants were adult males, with a little less than half (2.4 million) of the adult males residing without a spouse or children. Adult females accounted for 35 percent (3.9 million) of the unauthorized migrants, and less than one-fifth of the women were residing without a spouse or children. Approximately 1.8 million children accounted for the remainder of the unauthorized population. In addition, approximately 3.1 million U.S.-born citizen children were living in households where the head or the head's spouse was an unauthorized migrant.

The interaction of migrant supply, labor demand, and policy structure results in a foreign-born skill mix that is described in Chart 9-1 (for all foreign born, age 25 and above). Educational attainment is only one component of productive capability and it does not fully capture ambition, reliability, or knowledge of a specific trade or language. Nonetheless, many jobs have strict educational requirements, and economists frequently study the labor market in terms of educational categories. The height of each bar in Chart 9-1 represents the number of foreign born from each region (age 25 and above). Clearly, Latin America supplies more migrants than any other region, and many from Latin America have less than a high school degree.

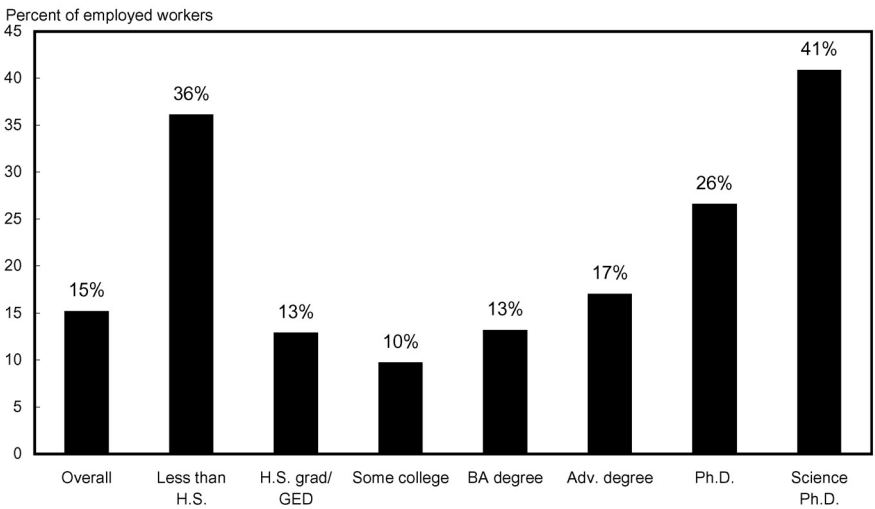
Foreign-born workers are found disproportionately at the extremes of the educational spectrum. The educational mix of foreign-born workers relative to native-born workers is shown in Chart 9-2. It differs from Chart 9-1 in that it pertains to all employed workers over age 15, it groups all foreign-born workers together, and it has more detailed information about the top end of the educational scale. The first bar indicates that 15 percent of all workers in the United States in 2005 were foreign born. The foreign born were heavily over-represented in the group of workers with less than a high school degree; they were slightly under-represented among workers with only a high school degree, those with some college, and those with only BA degrees; and they were over-represented among workers with advanced degrees, especially among those with Ph.D. degrees who worked in scientific and technological fields. All together, and remarkably, over 40 percent of Ph.D. workers in computer, mathematical, architectural, engineering, and science occupations were born outside the United States.

Chart 9-1 **Educational Attainment Among Foreign-Born U.S. Residents, 2005**
Latin America is the most common source of foreign-born U.S. residents.



Note: The sample includes all foreign-born U.S. residents ages 25 and older. "H.S. grad/GED" includes high school graduates and those who have passed the general educational development test (GED).
Source: American Community Survey.

Chart 9-2 **Foreign-Born Proportion of U.S. Workers by Education Level, 2005**
Foreign-born workers are concentrated at the top and bottom of the education distribution relative to native-born workers.



Note: The sample includes all employed persons over the age of 15. "Adv. Degree", "Ph.D.", and "Science Ph.D." are not mutually exclusive categories. The "Science Ph.D." group includes workers in computer, mathematical, architectural, engineering, and life, physical and social science occupations.

Source: American Community Survey.

Highly skilled migrants make many economic contributions to the United States, and a strong case can be made that policy should accommodate more of them. Skilled migrants, whether permanent or temporary, enrich our scientific and academic communities, boost the technical capabilities of U.S. firms (and the native-born workers employed there), augment the supply of health-care providers, and pay far more in taxes than they absorb in government services. Many of these workers were educated at American universities, and nearly all adjust easily to life in the United States in terms of language skills and employment. They make major innovative contributions in science, medicine, and engineering, and help keep the United States at the forefront of technological capability. For example, between 1901 and 2005 approximately one third of U.S. Nobel Prize winners in medicine and physiology were born abroad.

Because the foreign born, as a group, do not have the same mix of skills as U.S. natives, they alter the relative supply of different types of labor in the economy. The extent to which this alteration of labor supply influences natives' wages depends in large part on whether the foreign born are complements or substitutes for natives in the labor market. When two inputs closely resemble one another, they are likely to be substitutes, and an increase in the supply of one will lower the earnings of the other. In some cases, however, inputs are likely to be complements, and an increase in the supply of one will raise the productivity and, therefore, the earnings of the other. For example, construction laborers may be complements to skilled craftsmen because additional laborers may raise craftsmen's productivity. Conversely, new construction laborers may be close substitutes for other construction laborers and for similar less-skilled workers, and so additional construction laborers would tend to make the services of less-skilled laborers less valuable on the labor market.

The impact of immigration on the labor market also depends on how other factors of production, such as capital, respond to the change in labor supply associated with immigration. In particular, in the short run an increase in the supply of labor puts downward pressure on wages, allows more hiring, and raises the productivity of capital. This increase in capital productivity, in turn, induces firms to invest in more physical capital which ultimately makes labor more productive. Thus, over time the capital accumulation response to immigration tends to offset the downward pressure on wages caused by an increase in the labor supply. The key point is that in trying to understand the effect of immigration on labor markets it does not make sense to suppose that all the other factors that influence labor markets remain the same over a long period of time; rather, these other factors adjust to immigration in important ways.

Economists have produced many data-intensive analyses of the response of native-born workers' wages to immigration, and the debate is still ongoing. To

some extent the estimates depend on the methodological approach that is used to isolate the effects of immigration. One recent study concluded that immigration between 1990 and 2004 slightly raised the wages of most native-born workers but slightly lowered the wages of those without high school degrees (who represent about 10 percent of the native-born labor force). If this finding is correct, then excluding foreign-born workers might give a small boost to the earnings of American high-school dropouts. But such a policy would be costly and counterproductive from the perspective of American consumers, businesses, and most native-born workers. Moreover, such a policy would not be a well-targeted or effective way to assist low-income Americans. The economic challenges facing low-income Americans are a serious concern, but sharp restrictions on immigration are not the remedy. A better policy is to ensure that all Americans have opportunities to acquire skills that will improve their labor market outcomes.

Comprehensive Immigration Policy Reform

Border security is a fundamental responsibility of a sovereign nation and an urgent requirement for our national security. Since 2001, funding for border security has more than doubled, from $4.6 billion in fiscal year 2001 to $10.4 billion in fiscal year 2007. We will have increased the number of Border Patrol agents by 63 percent, from 9,000 at the beginning of this Administration to nearly 15,000 at the end of fiscal year 2007, and we have deployed about 6,000 National Guard troops to assist our border security efforts at the southern border. We have also added 6,700 new detention beds, for a total of 27,500, and have been able to effectively end the practice of "catch and release" of illegal aliens apprehended at the border. The heightened efforts to control entry into the United States are one part of a larger strategy to improve the immigration system while bolstering national security.

The President believes that the best way to fix immigration policy is to adopt a comprehensive program that combines stronger border security, more effective worksite enforcement of employment eligibility laws, and expanded legal channels for the employment of foreign-born workers, including those who are not highly skilled. The comprehensive program would reduce the number of illegal workers and preserve the economic benefits associated with a flexible supply of hardworking foreign-born workers. The key features of comprehensive immigration policy reform would work together and reinforce one another to strengthen the incentives for both workers and employers to comply with immigration and employment laws.

A Legal Bridge between Employer Demand and Migrant Supply

By improving the technology that firms use to verify new workers' employment eligibility and expanding the channels for legal, temporary migration by less-skilled workers, comprehensive immigration policy reform can dramatically reduce incentives for illegal work. Effectively narrowing employment opportunities for illegal workers must be the keystone of immigration policy reform. Unfortunately, at present, it is often difficult for employers to verify the employment eligibility of migrant workers, some of whom have fraudulent documents or engage in identity theft. And as long as some firms employ illegal workers, other firms might do the same to compete on the basis of cost. The current situation with millions of illegal workers and many non-compliant employers is both unacceptable and unnecessary.

Comprehensive immigration reform should aim to establish an environment in which all employers can easily determine the legal status of newly hired workers, in which foreign-born workers can easily prove their identity and legal status, and in which firms can legally hire a foreign worker when no American worker is available to fill a given job. This reform requires an electronic employment eligibility verification system that is accurate, fast, and inexpensive. The Department of Homeland Security continues to refine and expand an internet-based system called the Basic Pilot Program that allows participating employers to verify the employment eligibility of their new hires by checking against Social Security Administration and immigration records. In addition, to curtail the use of fraudulent identity documents, the Department of Homeland Security now issues tamper-resistant, biometrically enhanced (with photograph and finger print) identity documents to most lawfully present foreign-born workers.

Employers also must be held accountable if they hire illegal workers. A rigorous system of verification checks in combination with strong enforcement and enhanced penalties can effectively promote compliance. In this regard, the new policy would remedy the comparatively lax enforcement of immigration law that followed the Immigration Reform and Control Act of 1986.

Electronic verification of new hires' eligibility, tamper-resistant and biometric identification cards for foreign-born workers, and stronger interior enforcement measures should be complemented by the establishment of a temporary worker program, initially proposed by the President on January 7, 2004. A temporary worker program would provide a legal channel for a foreign-born worker to enter the United States for a specific period of time, provided that the worker maintains a consistent work record, does not break the law, and follows the rules of the program. In addition, under certain conditions, some currently undocumented workers would be eligible to work here legally if they pay a substantial penalty for having violated the law. As

long as the costs for program participation are kept low, enforcement is robust, and the number of workers allowed to participate is sufficient, migrants and employers will choose this legal channel for finding matches rather than resorting to illegal means.

A temporary worker program should also endeavor to preserve the flexible role that foreign-born workers play in the American economy. Foreign-born workers are responsive to new economic opportunities and to variation in opportunities over time and space. This responsiveness tends to improve labor market efficiency and overall economic productivity. Administrative requirements that are burdensome for firms, migrants, or government agencies will raise the program's economic costs and, depending on the program's structure, result in either non-compliance with the new policy or a significant drain on government resources.

Finally, comprehensive immigration reform must ensure that highly-skilled immigrants are welcome to make contributions to the U.S. economy. For example, many of the world's best students come to American universities for advanced training in science and technology, and a large share of these students would like to stay and work in the United States after finishing their education. As discussed earlier in the chapter, their work helps keep the United States at the frontier of research and development, and their post-schooling employment depends upon their ability to acquire a temporary work visa or permanent resident status.

The Pitfalls of Partial Policy Reforms

Less-skilled workers are infrequently admitted to the United States unless they have a close relative who is already an American citizen or lawful permanent resident, or they are coming for a short-term, seasonal job. At the same time, America has a strong demand for the products and services that less-skilled workers provide and a declining number of less-skilled domestic-born workers to provide them. This combination acts as a powerful magnet for less-skilled foreign workers. While there is no excuse for breaking immigration and employment laws, the underlying economic forces that draw immigrants to the United States are powerful and deeply rooted. Comprehensive immigration reform can put the United States on a firm legal and economic footing to manage twenty-first century immigration, whereas partial reforms are likely to entail significant costs without yielding satisfactory results.

A policy that relies on more extensive border fencing or more intensive border patrols will make it more difficult for migrants to cross the border illegally. This is an important step in improving control over our borders. By itself, however, this approach will not undercut the existing demand from U.S. employers and consumers for the labor services of foreign-born workers. Therefore, it seems likely that in response to this partial reform the flow of

migrants would change its path rather than dry up completely. Building fences, for example, does not address the problem of lawful entrants overstaying their visas and working without permission, and according to a recent study, between one third and one half of all unauthorized migrants in the U.S. entered the country legally. Thus, even with substantial increases in border patrol resources and increases in the cost of "coyote" services (guides who lead illegal migrants across the southern border), the best efforts of our Border Patrol have not fully stemmed the tide of illegal immigration. Pursuing intensive fencing and patrolling approaches to extremes would be inordinately costly in terms of material and manpower, and still it would not achieve the goal of greatly reducing the employment of illegal workers.

A partial policy reform that targets current employers of illegal migrants might lower the demand for illegal workers, make it more difficult for illegal migrants to find work, and therefore lessen the illegal inflow. But if the supply of authorized foreign-born workers is not simultaneously augmented through a temporary worker program, this approach would hurt many American companies and consumers and, as discussed above, would hurt complementary American workers. It would also slow the growth of the labor force and the overall economy.

Alternatively, a partial policy reform that focuses primarily on detecting, apprehending, and removing illegal workers who are already present in the United States might reduce migrants' desire to live and work here, but would be very costly to carry out. Moreover, fundamental economic forces would still drive many foreign workers to try their luck in America, illegally if necessary. The likely outcome of such partial reform is that there would still be many illegal workers and, more than ever, they would be unwilling to communicate with local law enforcement officials, prone to work in the underground economy, and subject to exploitation by criminals, smugglers, and unscrupulous employers.

Unlike partial reforms, the President's comprehensive approach can succeed because it combines a number of elements that reinforce one another. This comprehensive approach gives employers access to a source of legal foreign-born workers when they cannot find Americans to fill jobs, gives them better tools to verify the employment eligibility of persons they hire, and strongly punishes non-compliance with enhanced civil and criminal penalties. This approach also provides potential temporary migrants a more expansive legal route to employment in the United States that does not depend so heavily on having high levels of education and skills or on having relatives in the United States to sponsor them. It also makes illegal border crossing more difficult to accomplish and makes unauthorized employment more difficult to find. By simultaneously narrowing illegal channels for migration and employment and widening legal channels, the comprehensive approach to immigration policy reform can significantly improve upon the current system.

Conclusion

Immigrants make important contributions to the American economy. They help the economy grow by adding to the labor force; they fill in jobs at the lower end of the skill distribution where relatively few native-born Americans are available to work; they also fill in jobs at the highest end of the skill distribution and help keep the United States at the forefront of technological and medical innovation; they respond quickly and flexibly to shifts in labor demand; and they work hard to make better lives for themselves and their children. Immigration is both a reflection of and a contributor to our economy's prosperity.

The foreign-born proportion of the population has steadily increased in recent decades, and now stands at about 12 percent of the total U.S. population. Over the same period, the U.S. economy has performed well in comparison with other advanced economies. Still the large number of unauthorized workers has made it clear that our current immigration policy is inadequate. At the same time, the economic forces that drive international migration are as strong as ever and will remain so for the foreseeable future.

Comprehensive immigration policy reform can improve border security, significantly reduce the number of illegal workers, and yield economic benefits for employers, workers, and consumers in the United States. Achieving these policy goals requires better interior enforcement which, in turn, requires better tools for employers to verify worker eligibility. It also requires the creation of better legal channels for the migration of hard-working foreign-born workers who are eager to fill jobs that contribute to the American economy. Such workers tend to enhance the productivity of American factors of production, but they currently have few avenues, aside from family reunification, to gain legal entry and employment for a sustained period of time. By mutually reinforcing one another, the various components of comprehensive immigration policy reform can support a legally and economically viable immigration system.