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Invisible Hands: Immigration and American Economic Growth

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March 2013

The Setting:

American Immigration and Economic Growth

Economic growth is important — critically so, which is why the Bush Center has made a “4% Growth Project” a centerpiece of its efforts to promote a better world. But it is also why this book is on immigration. Immigration has played an intimate, important role in America’s high historic economic growth. As President John F. Kennedy once put it, we are “a nation of immigrants.” Our growth from an almost trivially small colonial outpost in 1607 or 1608, emanating from a settlement with a few dozen residents, into a mighty nation approaching one-third of a billion inhabitants would not have happened were it not for the persistent migration of persons across the planet to this promising New World. The human resources that have poured into America over the centuries have been critical in output growth. The dynamism associated with a rising population has spurred entrepreneurial opportunities and discoveries — as Plato allegedly said well over two millennia ago, “necessity ... is the mother of invention.”

This book is organized into eight chapters and an appendix. The first two chapters describe the American immigrant experience, beginning with a chapter detailing some historical facts and statistical detail on the massive movement to the United States. How much immigration has occurred? When? Have the geographic origins of immigrants changed dramatically? What about the occupational mix of immigrants? Have immigrants concentrated in certain locations within the U.S., and if so, why? By answering these and related questions, we can put American immigration into a historical and economic context. The second chapter hones in on the economic characteristics of current and recent immigrants to the U.S. Do they work hard? Are they educated? Are they a massive drain on the American welfare state? Do they take a long time to assimilate into American life? How important is English language proficiency in their ultimate economic success? I conclude that the immigrant population, like many predecessor generations of immigrants, seems to pursue economic opportunities vigorously, and rather quickly contributes positively to American economic life.

The next two chapters of the book directly address the central issue: immigration and economic growth. In chapter three, I look at how economic reasoning on balance suggests immigration has a positive impact on economic performance and financial well-being. Some of the scholarly writings on this topic are summarized in a non-technical fashion. America would certainly not have achieved the degree of economic preeminence that it has without massive inflows of human resources, which I analyze in some detail. In the companion chapter four, I mix a bit of original research with scholarly evidence to show that high economic growth and immigration tend to go hand in hand. While it is true that immigration in some cases is a consequence of positive past economic experience, it also is true that it contributes typically to a future extension and expansion of that positive growth experience. Immigration is both a cause and consequence of growth.

Yet any useful discussion of the American economic experience and its future potentialities would be woefully incomplete if it did not address a fundamental reality: Many Americans have feared and even loathed immigrants. This was true even in the Colonial era, and remains true today. The next two chapters of the book deal with “The Immigrant as a Problem.” In chapter five, I give a brief but fairly comprehensive survey of the evolution of anti-immigrant attitudes over several centuries. While many of

the concerns were misguided and even racist, they were very real and impacted on the ebbs of flow of human migration into our nation over time. In chapter six, I specifically review the political ramifications of anti-immigrant sentiments, outlining efforts, many successful, to limit the flow of newcomers to our shores.

What to do? Immigration is on balance beneficial, but anti-immigrant sentiment is also strong, so any growth-oriented immigrant policy must take into account the real and politically potent concerns of those who view immigrants in some sense as problems. The last two chapters could be collectively entitled "Towards a Pro-Growth Immigration Policy." I first look (in chapter seven) at efforts over the past decade or so to change laws relating to international immigration. That chapter also outlines what current law allows in the way of immigrant flows, and details some of the more severe defects of that law.

In the next chapter (eight), I suggest a new approach to immigration policy that would achieve the pro-growth goals of increasing immigration flows and assuring that newcomers bring highly productive human resources to the nation. At the same time, the approach I suggest deals with some of the major concerns and anxieties of anti-immigrant forces, but does so in a way that is not deliberately discriminatory towards specific immigrant groups. Basically, I advocate a variant on an idea suggested by Nobel Prize-winning economist Gary Becker decades ago, using market forces (demand and supply) to determine who enters the United States. Under this proposal, the gains to immigration can be quantified and American taxpayers could see explicit benefits from new immigration flows to the United States. This itself should significantly reduce anti-immigrant fervor, and can even be done in a way that would modestly reduce excessive marginal income tax rates that are another impediment to growth.

In the appendix, I do a bit of highly informed speculation about how much a pro-immigration policy could increase the standard of living and job opportunities for Americans, both immigrant and native-born. I show that, with reasonable assumptions, the U.S. economy today would be significantly larger and more prosperous if the pro-growth immigration policy outlined in chapter eight had been implemented, instead of the policy of limited immigration largely dictated by 1965-era legislation.

My goal, frankly, is to move the nation in the direction of serious, productive, and growth-supporting immigration reform. Not only can enhanced immigration promote a higher standard of living and continued American world leadership, but the added human resources associated with a productive immigrant population can help deal with such rising national problems as our unfunded Social Security and health care obligations. It is time to revitalize our nation by opening the doors to productive persons from throughout the world.

Chapter One

A Nation of Immigrants

The largest human migration the world has ever seen is that to the land area now called the United States. From the beginning of settlement over four centuries ago to the present, 76 million people¹ are estimated to have migrated to the United States. That number is, if anything, conservative, as millions of others have arrived, often illegally, not counted in the official statistics. The total number of migrants to the U.S. is larger than the total population of all but a handful of nations. While some massive movements of people from dislocation associated with wars (especially World War II) rival the American experience in terms of sheer numbers, these migrations were not sustained, permanent moves to a single destination.

The Pace and Pattern of American Immigration

While the move to America has been persistent, it has varied enormously in magnitudes over time. In the 17th century, the number of immigrants was relatively small by today's standards, surely measured in the tens of thousands over a century, compared with the hundreds of thousands or even a million in a single year today. But the migration of the 17th century was critically important, and compared to the small size of the population of the American colonies, was relatively large. How large is really not known with any precision because until well into the 18th century, the indigenous native (Indian) population constituted a majority of the peoples of the area of the current United States.

At the time of the American Revolution, immigrants probably constituted a relatively small portion of the total population, almost certainly under 12 percent, less than it is today. A good deal of that was due to the forcible migration of Africans, brought to America by slave traders. Population growth was enormous, but fueled mainly by fertility rates about as high as ever observed among human beings at any time or place, not by new immigration.

From 1775 to 1820, that is to say for almost the first two generations after Americans declared their independence from Great Britain, the migration to America was modest. In large part, this was because wars (the Revolutionary War, Napoleonic Wars) made ocean travel hazardous and impacted adversely on the economy of the new nation as well as reducing the financial ability of immigrants to make the still relatively costly voyage. It is generally estimated that perhaps 250,000 immigrants arrived between 1790 and 1820. It is highly likely that less than five percent of the American population in 1820 was foreign-born, a lower proportion than recorded ever since (although the proportion was nearly that low in the middle parts of the last century).²

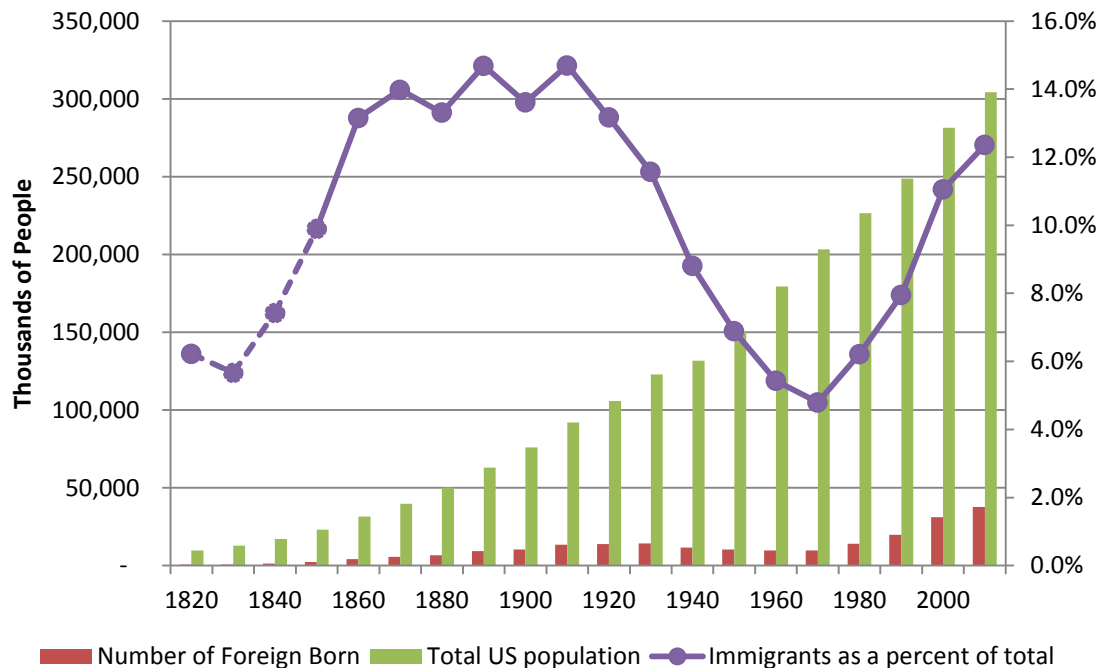
The flow of immigrants was still fairly modest, surpassing 10,000 a year for the first time in post-Revolutionary America in 1825. The flow grew continually in the 1820s and 1830s, reaching truly large

¹ *2010 Yearbook of Immigration Statistics*, Department of Homeland Security: Office of Immigration. 2011

² The decennial censuses of population did not record nativity information prior to 1850, although statistics on the number of immigrant arrivals were collected from 1820 onwards.

magnitudes around mid-century; the number surpassed 100,000 a year for the first time in 1842.³ The immigrant proportion of the population rose dramatically to around 14 percent at the time of the Civil War, about as high as ever recorded in American history (see Table 1-1). Several factors explain the migration. First, the American economy was booming; Walt W. Rostow claims the American “take-off” into sustained economic growth occurred in the two decades before the Civil War (specifically 1843 to 1860), and economic historians are nearly unanimous in believing that economic growth accelerated after 1840.⁴ Lowell Gallaway and I once asserted, with no great dissent from scholars, that “the pull was stronger than the push,” meaning immigrants were more influenced by the economic opportunities of America than they were by bad economic/political conditions in Europe, the source of most of the migration.⁵

Figure 1-1



Source: U.S. Bureau of the Census, author's estimates.

At the same time, however, there is no question that a number of adverse economic and political factors in Europe contributed to the mid-19th century immigration surge. By far the most important of these were crop failures, especially the blight that devastated the production of the main food staple of Ireland, the potato. Even now, the population of Ireland is barely half of what it was in 1840. Secondly, unsettled political conditions led to peasant unrest in Germany and other parts of Europe.

³ Immigrant statistics before 1970 are all from U.S. Bureau of the Census, *Historical Statistics of the United States, Colonial Times to 1970* (Washington, D.C., Government Printing Office, 1975), chapters A and C.

⁴ Walt W. Rostow, *The Stages of Economic Growth: A Non-Communist Manifesto* (Cambridge, U.K.: Cambridge University Press, 1960).

⁵ Lowell Gallaway and Richard Vedder, “Emigration from the United Kingdom to the United States, 1860-1913,” *Journal of Economic History* 31(4), December 1971, 885-897.

The U.S. Civil War led to an abrupt drop in immigration, and while immigration rose after the Civil War, the immigrant share of the population was slightly smaller in 1870 than in 1860. Another deterrent to huge increases in immigration related to the business cycle — for example, the Panic of 1873 in the U.S. led to some decline in immigration. The volume of immigration expanded enormously during the prosperous 1880s, only to fall during the 1890s, again a decade with severe economic downturn arising from the Panic of 1893.

The era from 1900 to 1914 featured extraordinarily high levels of immigration, with the absolute magnitudes reaching a historic high (with one million immigrants entering in several years beginning in 1905) that was not approached again for nearly a century. Several factors explain the upsurge, aside from generally extremely robust economic conditions in the U.S. Southern and eastern European immigration, previously relatively small, became the dominant place of origin. This, in turn, was aided by improvements in ocean shipping (the development of large steamships) that led to lower transportation costs. Falling communication costs (following the development of the transatlantic cable and reliable international mail service) provided prospective immigrants with more information on life in America. Immigration fed upon previous migrations, with immigrants flocking to cities where friends and relatives had previously settled. Some migration (notably, of Jews from Russia) was prompted by discriminatory practices.

In many ways, 1914 was the apogee of immigration in the United States. One of seven Americans was an immigrant, and over one-third of Americans were either immigrants or the children of immigrants.⁶ Most of the nation's largest and fastest growing cities had huge immigrant populations that, counting their children, often outnumbered the number of native-born inhabitants.

Had past patterns continued, immigration would have ground to a halt during World War I (if for no other reason than transatlantic ocean crossings became extremely dangerous), but then would have greatly accelerated during the Roaring Twenties — an era of great prosperity in America but far less so in Europe. But that did not happen, because immigrant restriction, non-existent before the 1880s and of secondary importance before 1921, dramatically restricted the free flow of immigrants to the United States. The number of foreign-born in 1930 was little changed from what it was in 1910 — at a time when the total population was growing by a third. And it actually got worse after 1930, in part because of the Great Depression and World War II, both of which dramatically reduced immigration independent of legal restrictions. From 1930 to 1970, the immigrant population fell substantially (older immigrants died, and for the most part were not replaced by new incoming immigrants). In 1970, less than five percent of the American population consisted of immigrants.

Yet a new surge in immigration began, slowly at first (averaging about one thousand immigrants a day in the late 1960s, the long-term historical average for the 1820-1970 period), but accelerating with time. In large part, that is because the legal impediments to immigration, while still substantial and, in this author's judgment, often counterproductive, were eased somewhat from the draconian provisions in the landmark 1924 legislation.⁷ Also, continually falling transportation and information costs made the

⁶ According to *The 1911 Statistical Abstract of the United States*, roughly 35.6% of the population was either an immigrant or a native of foreign or mixed parentage in 1910.

⁷ A discussion of the specifics of immigration restriction comes in chapter six.

journey to America less burdensome than ever. Moreover, unlike earlier immigrant surges, this one had considerable staying power, lasting over four decades without major interruptions from business cycle downturns or wars. The size of immigrant flows by the 1990s was rivaling those at the beginning of the 20th century (one million or more a year), particularly if immigration not sanctioned by American law is taken into account. By 2010 the proportion of Americans who were foreign-born, while still modestly below the peaks of the mid-19th and early 20th centuries, was beginning to rival it, and the immigrant presence in America was being felt much as it was during the century from, say, 1830 to 1930.

While the absolute flows of immigrants and even the proportion of immigrants in the population in recent years rivals that for the period around 1910, in another important way the current immigrant flows into the country are far smaller than in the earlier era. In the earlier period, the U.S. population was around one-third of what it is today. A million immigrants a year, a number reached in several years around 1910, meant that about 10 immigrants entered the country for every 1,000 population living there. The same statistic today is only about one-third as large, or about three new immigrant arrivals per 1,000 population. The nation around 1910 was able to absorb dramatically more immigrants in a population-adjusted sense than is the case today.

The demographic importance of immigration has oscillated considerably over time. One simple but useful statistic is the immigrant contribution to population growth, defined here as the growth in the number of immigrants over the past decade as a percentage of the total growth in population for that period. Table 1-1 shows that the proportion in several decades in the middle of the 20th century was actually negative, but at other times a significant proportion (20 percent or more) of the population growth was explainable by newcomers to America.

Table 1-1			
Years	Change in Foreign Born	Change in Overall Population	Percent Attributable to Change in Foreign Born
1820 to 1830	128,502	3,227,567	3.98%
1830 to 1840	538,381	4,203,433	12.81%
1840 to 1850	1,027,719	6,122,423	16.79%
1850 to 1860	1,841,573	8,251,445	22.32%
1860 to 1870	1,431,054	8,375,128	17.09%
1870 to 1880	1,112,318	10,370,760	10.73%
1880 to 1890	2,570,000	12,790,557	20.09%
1890 to 1900	1,091,729	13,014,809	8.39%
1900 to 1910	3,174,610	15,977,691	19.87%
1910 to 1920	404,806	13,738,354	2.95%
1920 to 1930	283,457	17,064,426	1.66%
1930 to 1940	(2,609,253)	8,894,229	-29.34%
1940 to 1950	(1,247,501)	18,546,835	-6.73%
1950 to 1960	(609,304)	29,109,547	-2.09%
1960 to 1970	1,641	23,868,117	0.01%
1970 to 1980	4,340,174	23,352,031	18.59%
1980 to 1990	5,687,410	22,164,068	25.66%
1990 to 2000	11,340,573	32,712,033	34.67%
2000 to 2010	6,498,111	22,858,094	28.43%

Source: U.S. Bureau of the Census, Author's calculations

It is noteworthy that the modern immigrant contribution to American population growth is substantial, even compared to the beginning of the 20th century. One reason for this is the sharp slowdown in natural population increase in America, reflecting the fact that birth rates have fallen more sharply than death rates in recent decades. That natural population growth slowdown has increased the relative importance of immigration in dictating the pace and pattern of U.S. population change. While much of Europe and industrialized Asia (e.g., Japan and China) have a birth dearth that is leading to the prospects of major population decline, somewhat higher birth rates and considerable immigrant inflows has allowed the U.S. to avoid the specter of almost withering away, a prospect that is very real in such major nations as Russia and Japan. Associated with that, immigration can increase the proportion of the population of working age, an increasingly important issue as the ratio of older citizens to that of working age rises sharply with higher life expectancy and lower birth rates.

Changing Characteristics of American Immigration

Where Do Immigrants Come From?

Although there were migrants to the New World from The Netherlands, France, the German states, Africa, and even Spain, immigration from Great Britain dominated in the colonial era. The new land, after all, was part of the British Empire, and British laws and customs transferred fairly readily to the new locale. The single most important alternative source of early immigrants was West Africa, as slaves were imported into Virginia as early as 1619 — even before the arrival of the *Mayflower* led to the first New England settlements. On the eve of the American Revolution, close to 20 percent of the colonial non-Indian population were slaves, suggesting that perhaps close to that proportion of immigrants were involuntarily shipped to America from Africa. Even so, the British Isles, including Ireland, provided a solid majority of immigrants throughout the 17th, 18th, and into the early part of the 19th century.

There have been three major shifts in the geographic origins of immigrants in American history, with the first beginning in the 1830s and rising to a peak in the 1850s. Among immigrants coming from British-ruled territories, the share from Ireland grew from perhaps 60 percent of a relatively small number in the 1820s to close to 80 percent of a huge number (well over 200,000 annually) by the late 1840s and early 1850s. In addition, migration from Germany soared (over 70,000 annually in the first eight years of the 1850s), and an important migration also began from the Scandinavian countries, which grew sharply after the Civil War.

The second big revolution in the geographic origins of immigrants began after 1880 and accelerated in the 1890s and early years of the new century. The years 1880 and 1900 both had roughly 450,000 immigrants enter the U.S. In 1880, about three-quarters of them came from northwestern Europe, including Germany. Fewer than 20,000 (well under five percent) came from Russia or Italy. In 1900, by contrast, over 190,000 (well over 40 percent) came from either Russia or Italy, and over 25 percent came from other central European places — Poles, Hungarians, Czechs, Slovaks, etc. — more than the total from the previously leading sources of immigrants: Great Britain, Ireland, and Scandinavia.

Why did these changes in geographic origins occur? The Industrial Revolution in Great Britain led to rising standards of living there, especially after about 1830.⁸ This alleviated somewhat the “push” factor. Meanwhile, the Irish potato famine accelerated the “push” factor across the Irish Sea. The beginnings of industrialization and major economic change, along with angst over autocratic rule, contributed to the German and arguably Scandinavian migrations. In early stages of industrialization, the bulk of the population see little improvement in living standards but begin to see the potentialities of economic growth — and want them. As a monetary based economy grew, an increasing number (although always a minority) of Europeans became increasingly able to get the means to finance and chose to escape to the promised land of America.

A similar story can be told of the Eastern and Southern European immigrations. Rostow claims both the Russian and Italian take-offs began around 1890. With it, improved communications, the rise of an exchange economy based on money, sharply falling transportation costs, and political upheaval (including pogroms directed towards Jews) allowed the “push” factors in immigration to be manifested in large-scale emigration. As a population base of immigrants from those countries became established in the United States, they used their growing resources to bring their friends and relatives from southern and Eastern Europe to the United States as well.

The big story for nearly half a century after the 1920s was the sharp decline in immigration that was induced by government controls, particularly with respect to national origins. The 1924 law, discussed more in chapter six, deliberately discriminated against southern and eastern European immigrants. In 1929, for example, over 40 percent of the immigrants came from the traditional (pre-1880) sources of Great Britain, Ireland, Germany, Scandinavia, and a few smaller northwest European countries. Barely 10 percent came from southern and eastern Europe. What about the rest? Few came from Asia — Asians were highly discriminated against in truly racist legislation and regulations dating back to the 1880s. But large numbers of immigrants (40 percent of the total) came from Canada and Mexico, a precursor of later developments. Some of the “Canadian” immigrants were undoubtedly those originally from southern and eastern Europe trying to get around discriminatory American immigration laws.

After immigration legislation was passed in 1965 removing most of the overtly discriminatory provisions of the 1924 legislation, but maintaining strict limits on overall immigration, two things happened. First, as indicated earlier, the numbers of immigrants rose, partly because the new legislation was not quite so draconian. A significant portion of the increase in numbers, however, related to undocumented or illegal in-flows, which by the late 20th century were reaching upwards of 300,000 or more a year.

The second thing that happened was in part unanticipated: Immigrant flows underwent their third great revolutionary change, with massive increases from non-European locales, especially the Americas and Asia, but, less importantly though still consequentially, from Africa. European immigration, while still meaningful, has continued its decline in relative importance observed in the previous decades. Given its proximity, relatively poor economic conditions, and the low cost of migrating, Mexico has become the leading single provider of immigrants to the U.S. It is worthwhile to note, however, that there are also

⁸ The literature on this is voluminous. A superb, and to my mind, the best recent account is Joel Mokyr’s *The Enlightened Economy: An Economic History of Britain 1700-1850*.

large numbers of immigrants to the U.S. from other countries in the Americas and Caribbean nations like Haiti and Jamaica.

Another major trend is the rapid rise in Asian immigration, especially from China and India, but also from a variety of other nations. The most distinctive thing about the new wave of immigration is that its racial character changed, from predominantly white to large proportions of non-white people. Indeed, some of the most prominent modern-era criticism of immigration to America has a distinct racial element to it, as will be discussed later in the book.⁹

Immigrant Destinations and Motivations

One thing the modern literature on American immigration has established fairly conclusively is that economic motives are extremely important in migration decisions. Immigrants to America want good jobs that allow for improvements in their standard of living, and seem to engage in some sort of cost-benefit calculation with respect to their migration decisions. They take advantage of labor-market information provided by friends, relatives and, in today's world, the Internet and other media sources. That was true 150 years ago, it is true now.

How do we know that? First of all, we can look at where immigrants settle. If economic considerations were of no importance, we would expect the geographic dispersion of immigrants to be more equal among the states than has actually been the case. Yet, from the time the first data were collected on immigrant location (in the 1850 Census), it is clear that immigration was greater in areas that had some economic advantage — higher incomes or potentially higher wealth, more jobs, or, at the minimum, lower costs in getting there from the place of origin. Lowell Gallaway and I demonstrated this empirically for immigrants arriving to the U.S. throughout a majority of the 19th and 20th centuries, confirming still earlier qualitative evidence of immigration scholars.¹⁰ More recent research is consistent with that interpretation.¹¹

To be sure, the destinations of immigrants in the U.S. changed over time — in the mid-19th century, for example, large numbers headed for the relatively cheap and fertile farmlands of the Midwest. By 1900, a huge proportion of newcomers headed for big cities in the East and, to a lesser extent, the Midwest. Indeed, some immigration critics claimed the newer immigrants were lazy, settling near their point of entry rather than seeking to maximize their economic opportunity. Prominent sociologist Henry Pratt

⁹ A good example is Peter Brimelow's *Alien Nation* (New York: Random House, 1995).

¹⁰ Lowell E. Gallaway and Richard K. Vedder, "Settlement Patterns of American Immigrants, 1950-1968," *Proceedings of the Fifth International Congress of Economic History* (Paris: Mouton, 1977), or their, with Vishwa Shukla, "The Distribution of the Immigrant Population of the United States: An Economic Analysis," *Explorations in Economic History* 11 (3), Spring 1974, 213-226. See also James A. Dunlevy and Henry A. Gemery, "Economic Opportunity and the Responses of 'Old' and 'New' Migrants to the United States," *Journal of Economic History* 38 (4), December 1978, 901-917. For general accounts of immigration over all or much of American history see Maldwyn A. Jones, *American Immigration*, Second Edition (Chicago: University of Chicago Press, 1992), Oscar Handlin, *The Uprooted* (New York: Grosset and Dunlap, 1951), Marcus Lee Hansen, *The Immigrant in American History* (New York: Harper & Row, 1964), or Brinley Thomas, *Migration and Economic Growth* (Cambridge: Cambridge University Press, 1954).

¹¹ For an excellent modern treatment of 19th century immigration to the U.S., see Joseph P. Ferrie, *Yankees Now* (New York: Oxford University Press, 1999).

Fairchild, for example, opined, "The great problem of distribution ... is to break up the closely packed homogeneous colonies of foreigners in the great cities and to get immigration ... to the country districts ... where they can render a real contribution to the life of this country."¹² Subsequent research has shown this claim to be false.¹³ By the late 20th century and continuing to this day, the South, previously shunned by immigrants, has become relatively more important, with states like Florida and Texas becoming major destinations. The huge influx into Eastern cities and states has ebbed. In 1900, vastly more immigrants were settled in, say, Ohio (458,734) than North Carolina (23,832) or Florida (4,492).¹⁴ Today, the reverse is the case.

While the destinations of immigrants have changed a lot over time, the reasons for choosing those destinations seem to remain remarkably consistent. Newcomers to America by and large go where their economic opportunity is the greatest, which not only enhances their income, but maximizes the income of Americans. Rather than go to a place where an immigrant can add, say, \$20,000 to the national output, he or she will go to where the marginal or incremental output to the nation is, say, \$30,000 or more. Employers generally pay workers roughly what economists call their "marginal revenue product." This incentivizes immigrants to go to where they are most productive, which is good for them and the nation. This purposeful migration behavior has contributed to a geographic redistribution of the population that is important for economic progress in a dynamic society.

A common complaint about immigrants is that they are less educated and productive than the native-born American population. If we look at labor as "human capital," it is sometimes argued that the per person or per worker human capital stock is lowered by bringing in workers from overseas whose productivity is lower than that of native-born Americans. Since newly arrived immigrants typically have lower than average incomes, it is argued, they lower the average for the entire American population. Their lower productivity and wages reflect the fact that typically they have less education and less knowledge of English, and are not fully cognizant of the American culture, making interpersonal communication difficult.

There is, indeed, and always has been some truth to all of this. Looking at the mid-19th century, for example, Lee Soltow painstakingly gathered evidence from Census records suggesting that foreign-born farmers and other workers were less well-off than their domestic counterparts.¹⁵ In a study of northeast Ohio, David Klingaman found that in 1860, immigrants typically had about one-half the wealth of native-born Americans, consistent with Soltow's evidence.¹⁶ Immigrants arriving in the U.S. at the turn of the 20th century from Southern and Eastern Europe had almost no financial resources (Table 1-2). Many immigrants came with less than 20 dollars in their pockets.

The U.S. Immigration Commission, whose massive (41 volumes) report remains a rich source of information on immigration in the late 19th and early 20th centuries, noted that in 1909, the average family

¹² "Some Immigration Differences," *Yale Review*, May 1910, p. 89.

¹³ Lowell Gallaway and Richard Vedder, "The Increasing Urbanization Thesis: Did New Immigrants to the United States Have a Particular Fondness for Urban Life?" *Explorations in Economic History*, 8 (3), Spring 1971, 305-19.

¹⁴ Statistics were derived from the 1900 *Census of Population*.

¹⁵ Lee Soltow, *Men and Wealth in the United States* (New Haven: Yale University Press, 1975).

¹⁶ "Individual Wealth in Ohio in 1860," in David C. Klingaman and Richard K. Vedder, eds., *Essays in Nineteenth Century Economic History: The Old Northwest* (Athens, OH: Ohio University Press, 1975), pp. 177-190.

income of immigrants, \$704, was nearly 20 percent lower than that of families with native-born white heads whose fathers were also native (\$865). But immigrants were closer to the native-born whites in economic status than to native-born blacks, whose average income (\$504) was less than 60 percent of that of native-born whites. Yet the data reveal something else, highly insightful about immigrants. Families headed by children of immigrants had an average family income (\$866) that actually slightly exceeded that of the native-born whites.¹⁷ Within a generation of arrival, immigrant families — through hard work, saving prodigious sums of money, and education — had wiped out the income differential associated with their newcomer status.

Arriving Immigrants to the U.S., 1904

Table 1-2			
Nationality	Total number of Immigrants	Percent bringing less than \$50	Average money per person
Chinese	4,327	80.72%	\$ 20.08
Cuban	4,811	54.16%	\$ 37.80
English	41,479	38.53%	\$ 65.97
French	11,557	45.17%	\$ 66.97
German	74,790	65.90%	\$ 48.44
Irish	37,076	82.71%	\$ 29.47
Italian (Total)	196,028	94.46%	\$ 15.87
Italian (North)	36,699	86.37%	\$ 28.10
Italian (South)	159,329	96.45%	\$ 13.05
Polish	67,757	96.83%	\$ 11.54
Turkish	1,482	87.86%	\$ 44.79

¹⁸

Source: *1904 Annual Report of the Commissioner General of Immigration*

And so it goes today. Some immigrants come to the States with little or no money in their pockets. They are educationally deficient as well. Others have a Ph.D., or are investors with large amounts of capital. There is immense diversity among the immigrant population. Nonetheless, recent evidence confirms what earlier studies showed: 10-15 years after entering the U.S., immigrants have largely caught up with their American counterparts.¹⁹

Occupationally, early immigrants, like most Americans, were closely tied to natural resources and particularly to agriculture. As late as 1850, over one-third of new immigrants to the U.S. indicated the

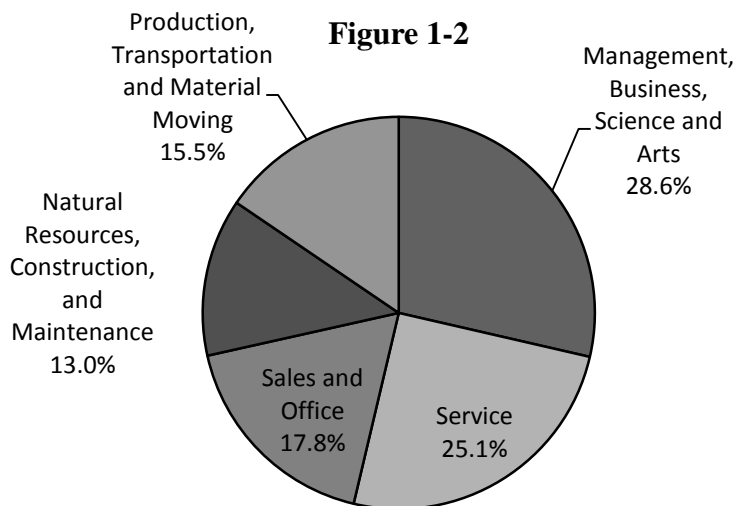
¹⁷ The *Reports of the Immigration Commission* was published by the U.S. Government Printing Office in 1911; Volume three, with voluminous statistics, is of particular interest to immigration scholars.

¹⁸ *Annual Report of the Commissioner-General of Immigration to the Secretary of Commerce and Labor For the Fiscal Year Ended June 30, 1904.*

¹⁹ Barry Chiswick, "The Effect of Americanization on the Earnings of Foreign-Born Men," *Journal of Political Economy* 86 (5), 1979, pp. 897-921 is a classic study. See also Richard R. Freeman, "People Flows in Globalization," *Journal of Economic Perspectives* 20(2), 2006, pp. 145-70, or George Borjas and B.M. Friedberg, "Recent Trends in the Earnings of New Immigrants to the United States," National Bureau of Economic Research Working Paper No. 15406, 2009. For a more literary account of how modern era immigrants assimilate, see Sanford J. Ungar, *Fresh Blood: The New American Immigrants* (New York: Simon & Schuster, 1995).

occupation of “farmer.”²⁰ As the nation industrialized, a huge proportion of immigrants provided the labor for factories and other industrial settings, be they the textile mills of early 19th century New England, the meatpacking companies of late 19th century Chicago, or the steel mills of early 20th century Pennsylvania. By 1900, a majority of arrivals classified themselves as “laborers,” up from under 37 percent in 1850; the percent classified as “servants” likewise rose from 2.5 to 12.9 percent of the total, while the proportion that were “farmers” dramatically declined to under 12 percent. As the nation’s occupational structure changed, so did the nature of immigration. By 1970, for example, barely 20 percent of immigrants were “laborers, servants, or farmers,” compared with a large majority as late as 1920; the percent identified as “professional worker” had grown from four to 29 percent.

Similarly the proportion of “skilled workers” had increased considerably, to about 30 percent by 1970. That shift has continued to this day. The notion that most immigrants are primarily agricultural or factory workers is no longer true, and vast numbers live in high technology centers such as Silicon Valley, engaged in technical or professional work. About 60 percent of advanced degrees in engineering in the U.S. are awarded to immigrants, and roughly half of new Silicon Valley business start-ups are founded by immigrants.²¹



22

Source: See Fn. 22, below

²⁰ *Historical Statistics of the United States, Colonial Times to 1970* (Washington, D.C.: Government Printing Office, 1975), Vol. 1, p.110, author’s calculations.

²¹ L.G. Crovitz, “We Need an Immigration Stimulus: A Recession Is Exactly When We Want Innovative Outsiders,” *Wall Street Journal*, April 27, 2009, p.A13.

²² *The Foreign-Born Population in the United States: 2010*, American Community Survey Reports, May 2012, accessible at <http://www.census.gov/prod/2012/pubs/acs-19.pdf>.

Chapter Two

Are Current Immigrants Productive and a “Plus” to America?

Immigrants want a better life for themselves and their families, and, in the pursuit of that objective, they achieve what Adam Smith famously called “an end not of their intention.” That is, they have contributed to furthering American economic exceptionalism and have contributed importantly to the nation’s ascendancy to a position of economic power and even dominance in the world.

Today, as before in American history, four generalizations are true of immigrants:

- Newly arrived immigrants have income and wealth that average substantially below those of the average of the American population;
- Typically within 10-15 years, however, the new arrivals have caught up with the average American with respect to income, and have made big gains on the wealth side as well;
- The children of immigrants are the most productive generation of all, typically with income and wealth exceeding that of the general population; and,
- Assimilation is more than merely economic; the children and grandchildren blend into the American culture in other ways, in keeping with the American Melting Pot tradition — for example, foregoing use of the language in the country of origin, intermarrying with persons from other ethnic groups, etc.

Figure 2-1: Average Income: Area of Immigrant Origin, 2010

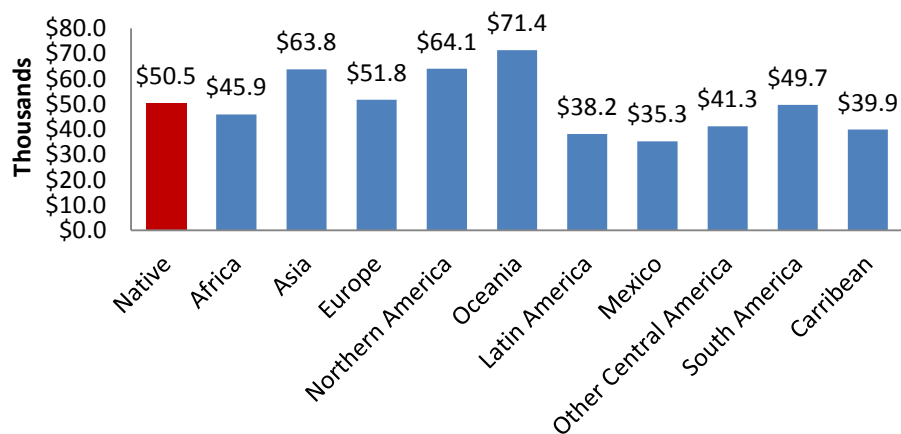


Figure 2-1²³ shows the average incomes of several immigrant groups as of 2010, compared with the average of the entire native-born population of the United States. As you can see, while for many

²³ US Census Bureau, American Community Survey, 2010.

immigrant groups the average incomes were far below that of the American population in general, that is not universally true, and some Asian, European, and even African immigrants fare quite well relative to American norms, suggesting that the economic assimilation process generally went quite smoothly.

To be sure, there are exceptions. Not all immigrant groups assimilate as fast or well as others. Indeed, the most striking attribute of modern immigrants is their diversity: Some succeed brilliantly, while others lag behind. Some are extremely entrepreneurial and well-educated, while others struggle even to use the English language. One extremely important group, Mexican immigrants, has demographic attributes that are quite different from those of immigrants from Europe, Africa, or Asia.

But while opponents of immigration like to dwell on the horror stories of low-income, welfare-dependent immigrants, there is another, brighter, and at least equally important side: the immigrant entrepreneur who assimilates instantly or extremely rapidly, and whose success has enormously positive spillover effects on the entire population. America's high technology, computer-based advances have been aided enormously by immigrants. Sergey Brin of Google, Andrew Grove of Intel, Eduardo Saverin of Facebook, and Jerry Yang of Yahoo are shining examples.

Nor is immigrant success limited to the narrow, albeit transcendently important, field of high-technology. Take finance. Hungarian born George Soros is arguably the world's most famous financial speculator and financier. Indian born Vikram Pandit until recently ran Citicorp, one of America's storied financial franchises. Ajit Jain, another Indian, is a key aide to American's legendary investment wizard, Warren Buffet at Berkshire Hathaway, and could become the top investment officer there sometime in the not too distant future. And, of course, there are other fields in which immigrants abound: In the world of entertainment, foreign-born American residents like Mick Jagger, Elton John, Eddie Van Halen, and Peter Frampton have brought their talents and financial resources to our shores, along with Oscar de la Renta (fashion design), Wolfgang Puck (food), and Rupert Murdoch (mass communications).

The cultural assimilation of immigrants becomes so complete that ultimately individuals lose most or all identity to the land of their ancestors. I suspect, for example, a majority of the descendants of the so-called "new immigrants" whose families emigrated to the United States from southern and eastern Europe around 1900 do not know more than a few words of the language used by their ancestors, and probably have not even visited the country of immigrant origin. Indeed, assimilation across ethnic and racial lines further promotes rapid Americanization. For example, 36 percent of Asian-American women marry someone of another race.²⁴

While most of the things said above about recent immigration could have been said 100 years ago about immigrants then, attitudes towards assimilation have undergone change. Throughout the 17th, 18th, 19th, and early 20th centuries, the prevailing view among native-born Americans is that we need to speed the assimilation process along, or at least be neutral with respect to it. Arguably, the movement to create public schools in the U.S. was in large part a response to fears that the heavily Catholic immigration of the early 19th century threatened the prevailing American cultural traditions revolving around Protestant beliefs, and that the assimilation into American cultural life would be eased if these immigrant as well as

²⁴ Rachel L. Swarns, "For Asian-American Couples, a Tie That Bonds," *The New York Times*, March 30, 2012.

native kids went to “common” public schools (with a rather generic Protestant flavor) rather than parochial Catholic institutions. Three quarters of a century later, immigrants to big city schools explicitly faced an “Americanization” curriculum that forced them to quickly learn the English language and get up to speed on the American heritage, literature, and customs.

In the last two generations, however, there have been efforts to promote “multi-cultural” values, to downplay “American” institutions and customs, and to allow immigrants to linger in the cultural setting of their parents and grandparents. This has been most personified by bilingual education programs in the schools. However, there has been considerable backlash against these efforts, most clearly in the passage of Proposition 227 in California, which effectively banned bilingual education in favor of a more traditional curriculum stressing the importance of effective English language training. And the evidence is crystal clear that knowledge of English is critical to immigrant economic success.²⁵

A Demographic Profile of Contemporary American Immigrants²⁶

In 2010, there were almost precisely 40 million immigrants in the United States according to the Census Bureau. That probably is a modest understatement, since there are perceived incentives for undocumented migrants to America to disguise their immigrant origins (even though the Census Bureau does not enforce immigration laws). The 40 million figure is about 13 percent of the U.S. population, which is somewhat high by historical standards, but actually less than it was in 1910 or even 1860.

Geographic Origins of Immigrants

Where did these newcomers come from? Unlike in the past, for the first time in American history a majority of immigrants did not traverse the Atlantic or Pacific Oceans to get to the United States, since over half (53 percent) came from Latin America and Caribbean island nations or colonies. Indeed, 29 percent came from a single nation — Mexico — dramatically more than any other single country of origin. Still, the overall geographic diversity of immigrants is impressive, as Figure 2-2 shows. For the first time in American history, a very large proportion of immigrants migrated fewer than 2,000 miles to reach the U.S. Moreover, transportation costs have fallen dramatically, so, unlike in some past periods, the tendency to congregate at ports of entry at the geographic edges of the nation, while still present to some extent, is a less important factor than in the past (as Figure 2-2 illustrates).

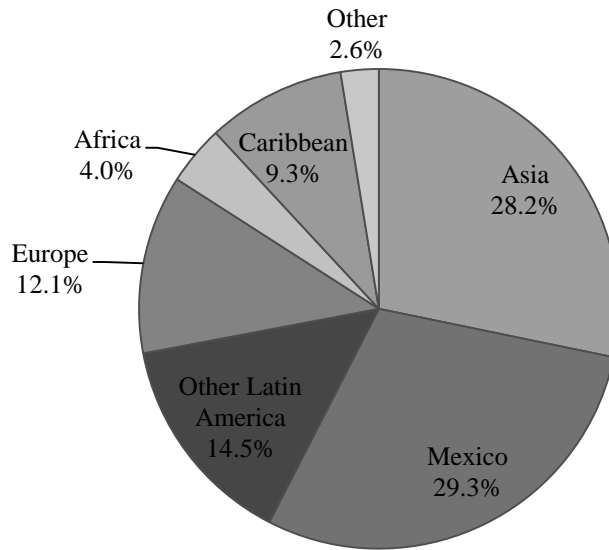
The shift in recent decades to immigrants from Mexico and other parts of Latin America may be changing somewhat, however, particularly in comparison with what in recent decades was the second largest area of immigrant origin, Asia. As recent data show, the proportion of Hispanic immigrants (almost entirely from Latin America) has undergone a fairly marked decline over the last decade or so, while the proportion of Asian immigrants has risen a good deal, to the point that new inflows from Asia now exceed those from Mexico.²⁷

²⁵ B.R. Chiswick and P. Miller, “Occupational Language Requirements and the Value of English in the US Labor Market,” *Journal of Population Economics*, 23: (1), 2010, pp. 353-72.

²⁶ The statistics in this chapter are largely from from U.S. Bureau of the Census, *The Foreign-Born Population in the United States: 2010* (available at <http://www.census.gov/prod/2012/pubs/acs-19.pdf>).

²⁷ See Walter Russell Mead, “America’s New Tiger Immigrants,” *Wall Street Journal*, June30/July 1, 2012, p. C3.

Figure 2-2: Origin of Immigrants, 2010



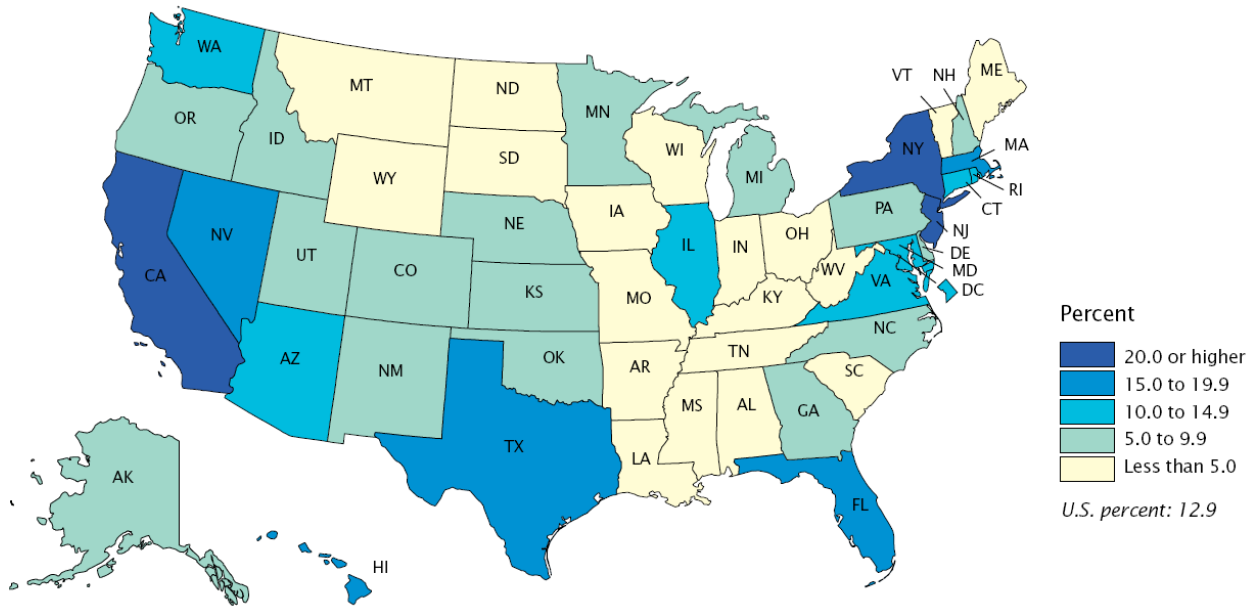
Source: U.S. Bureau of the Census

Geographic Distribution of Immigrants

Four states contain over half the immigrant population — California, New York, Texas, and Florida, with California having more than twice as many immigrants as any other state. Historically, immigration was relatively low in the American South and the mountain and prairie states of the agrarian Midwest and Rocky Mountain regions, and that still is true to a considerable extent. States like Mississippi, South Dakota, and Wyoming have only modest immigrant populations. But it is far less true than was the case 100 years ago. Two of the four leading immigrant states — Florida and Texas — are either southern or somewhat western in character. Previously, the Midwest attracted a good number of immigrants — around 1860 to the agricultural areas, and around 1910 to industrial cities like Cleveland or Chicago. While Chicago (and Illinois generally) remains a relatively important immigrant destination, some previously fairly immigrant-intensive Midwestern states, like Ohio and Wisconsin, are today among the nation's least influenced by modern immigration.

The concentration of immigrants varies considerably depending on the place of origin of the newcomers. Some 58 percent of Mexican immigrants, for example, live in two states, California and Texas, and an even higher proportion of Caribbean immigrants, 69 percent, are residents of Florida or New York. Immigrants from South and East Asia, the Middle East or Europe are likely to be more geographically disbursed.²⁸

²⁸ Eileen Patten, *Statistical Portrait of the Foreign-Born Population in the United States, 2010* (Pew Research Center, 2012, accessible at <http://www.pewhispanic.org/2012/02/21/statistical-portrait-of-the-foreign-born-population-in-the-United-States>), accessed on August 29, 2012.

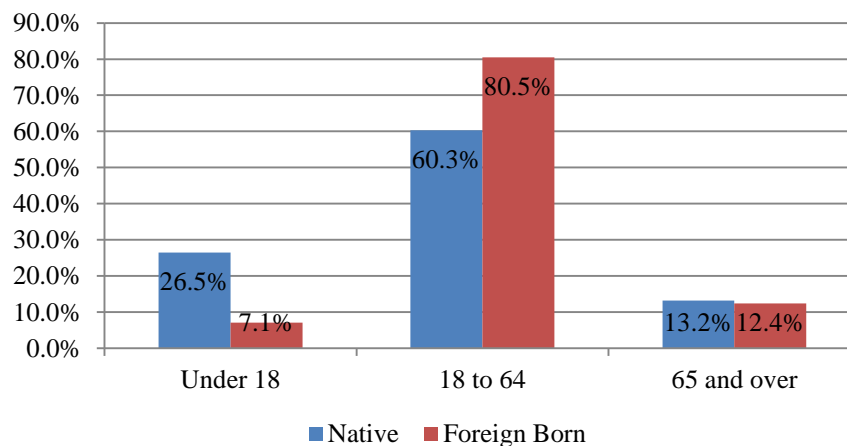
Figure 2-3²⁹

Source: U.S. Bureau of the Census

Age Distribution of the Immigrant Population

To me, the most distinctive and economically important trait of American immigrants is that they are disproportionately concentrated in working ages, with relatively small proportions being either very young or very old. Look at figure 2-4.

Figure 2-4: Age Distribution, Natives and Foreign Born, 2010



Source: U.S. Bureau of the Census

²⁹ U.S. Census Bureau, *The Foreign Born Population...*

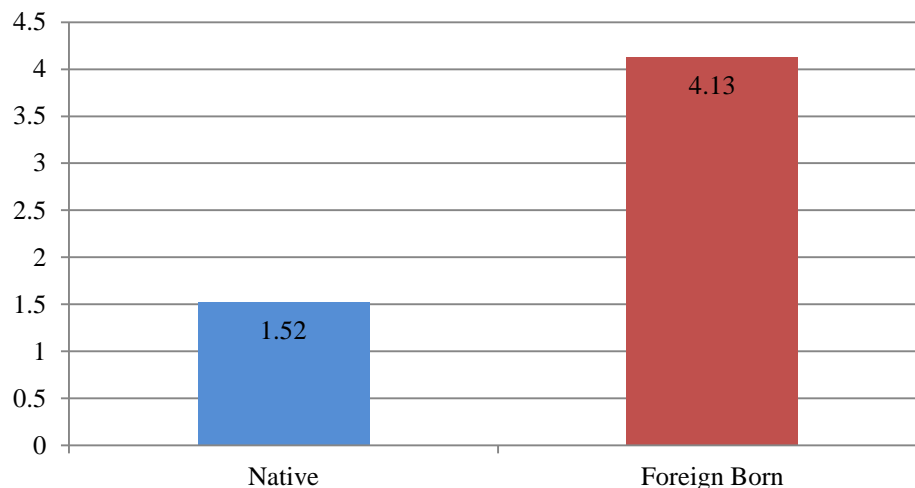
³⁰ U.S. Census Bureau, *The Foreign Born Population....*

Among the native-born population, barely three out of every five persons (60 percent) are of working age, defined here as 18 through 64. Yet among immigrants, over four out of every five (80 percent) are of working age. The aging of the American population has meant that the working-age population has to provide for an ever larger proportion of Americans who simply cannot work very productively because they are either too young or too old.

This is illustrated rather dramatically in Figure 2-5, which shows the ratio of the working-age population to the non-working age population. While there are over four immigrants of working age for every one of non-working age, the figure for native-born Americans is over 60 percent lower, at roughly 1.5. While this demographic reality changes with time, the numbers suggest that where there are relatively large immigrant inflows such as we have had in recent decades, the presence of immigrants helps deal with a huge and rapidly growing problem: the difficulty of caring for an ever larger percent of elderly people. The larger the immigrant presence, the higher the ratio of worker-age population to those age groups with low labor-market participation.

This stark demographic reality has profound policy implications. You want to ease the burden of funding, say, Social Security or Medicare? One tool that can be used is to increase immigrant inflows. While it alone will not solve the problem, it can make the short run burden of meeting this obligation less onerous. A 25-year-old immigrant to the U.S. is very useful to the country — the United States avoids most of the costs of rearing and educating the person, and has someone with a work life expectancy approaching 40 years. In a sense, the nation can have its cake and eat it too.

Figure 2-5: Worker/Non-Worker Ratio, 2010



Source: U.S. Bureau of the Census, author's calculations.

Additional data relating to this startling statistic are provided elsewhere by the Bush Institute.³¹ Suffice it to state here that the dominance of working age persons applies across almost all immigrant groups. With the single exception of European immigrants, the ratio of working-age to non-working population is at least three to one — double that for native-born Americans. And for the largest single national

³¹ See Matthew Denhart, *Growth and Immigration: A Handbook of Vital Immigration and Economic Growth Statistics* (Dallas, TX: Bush Institute, 2012).

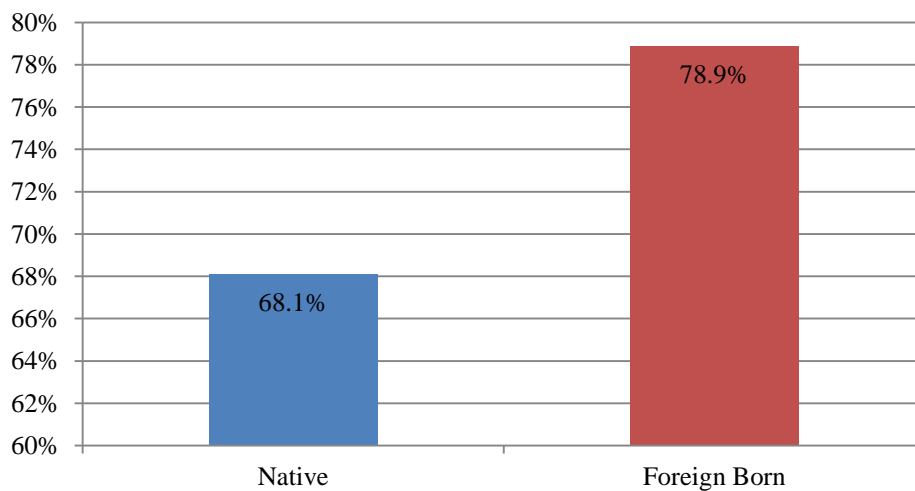
source of immigrants, Mexico, the ratio is a truly extraordinary *six* to one. While immigrants, like all humans, age with time, so that with stagnant immigrant in-flows the foreign-born population would eventually resemble the native-born with respect to age distribution, this can be circumvented, particularly over the next generation or so, by permitting relatively large inflows of migrants to the United States.

Work Characteristics of Immigrants

The potential economic advantages from having an immigrant population very heavily distributed in prime age groups could be dissipated, however, if those working-age immigrants in fact had a low level of labor-force involvement. However, the opposite is the case. Immigrants have a measurably higher rate of labor-force participation than native-born Americans. The overall rate of labor-force participation among immigrants, at 67.7 percent, is a good deal higher than the 63.8 percent rate for native-born citizens. Moreover, that conclusion holds for every major region of geographic origin for immigrants except Europe.

However, the aggregate statistics disguise a very important distinction. Male immigrants have dramatically higher labor-force participation rates than native-born males, as Figure 2-6 shows. Looking at the inverse of labor-force participation, whereas roughly 32 out of every 100 native-born males over 16 do not participate in the labor force, for immigrants the figure is about 21 — over one-third less. Yet for females, the labor-force participation is modestly less for immigrants (57 percent) than native-born women (59.7 percent). Women are somewhat more likely to play a traditional homemaking role in immigrant families, largely as a consequence of stronger family ties, discussed below.

Figure 2-6: Male Labor Force Participation, 2010



Source: U.S. Bureau of the Census

What kind of work do the immigrants do? Table 2-1 compares immigrants with native-born with respect to five broad categories of jobs. If we consider “service,” “natural resources, construction and maintenance,” and “production, transportation, and material moving” all as “blue-collar jobs,” and “management, business, science, and arts” and “sales and office” as “white-collar jobs,” we see that immigrants have a good deal stronger blue-collar orientation than do native-born Americans — 53.6

percent to 36.2 percent. Immigrant workers were more likely to be involved in, say, construction, factory work, or farming than native-born employees.

Table 2-1			
Occupational Category	Native-Born	Foreign-Born	
Management, business, science, and arts	37.4%	28.6%	
Service	16.6%	25.1%	
Sales and office	26.4%	17.8%	
Natural resources, construction, and maintenance	8.4%	13.0%	
Production, transportation, and material moving	11.2%	15.5%	

Source: U.S. Bureau of the Census

Yet this generalization needs to be importantly qualified. If one were to exclude migrants from just one country, Mexico, from the immigrant population, the occupational structure of immigrants would be very similar to native-born Americans. For example, while for native-born Americans 37.4 percent worked in “management, business, science, and arts,” for Mexican immigrants the figure was well under one-fourth that number (8.6 percent). But the proportion of immigrants born in Asia, Europe, Africa, and Northern America all exceeded the native American norm with respect to these categories of employment. These immigrant groups constituted 46 percent of the total foreign-born population. While 37 percent of native-born Americans came from these managerial and technical professions, some 47 percent of Asian and 45 percent of European immigrants did.

In short, the migrants from Mexico, and to a somewhat lesser extent other Latin America nations, tended to be much more blue-collar oriented than either other immigrants or native-born Americans. This is manifested in other characteristics as well, such as knowledge of the English language and the overall level of educational attainment.

The considerable variation among immigrants is particularly strong if one looks at employment in the STEM disciplines — science, technology, engineering, and mathematics. Looking at three occupational categories encompassing most STEM disciplines, 4.3 percent of native-born American workers are employed in those fields, compared with 6.0 percent of foreign-born — about a 40 percent higher proportion. Yet only 0.8 percent of Mexican immigrants are in those fields, compared with an extraordinary 14.3 percent of immigrants from South and East Asia.³²

Thus we have sort of a bipolar immigrant world. It is a bit simplistic but mostly correct to say that the roughly one-half of immigrants from outside the Americas typically have both a strong propensity to work and tend to take high-level white-collar jobs. Places like Silicon Valley depend on highly skilled immigrant labor to function. But we also have half of our immigrant population coming from the Western Hemisphere that, while hard-working, tends to fill relatively lower-skilled blue-collar jobs. Our society needs both types of workers; we need to fill the highly skilled white-collar positions as well as some distinctly less-skilled jobs that often require much physical strength but less academic training. In fashioning immigration policy, however, we have to acknowledge that America has large numbers of

³² Patten, *Statistical Portrait...*, Table 28.

foreign-born in these quite different forms of employment, and need to ask whether our immigration policy works to achieve not only the right number of immigrants, but also the appropriate occupational and skill mix to serve the nation's needs. We return to this in the closing chapters.

Educational Attainment

Closely correlated with occupational success, of course, is educational attainment. Those taking top-level managerial, technical, and professional positions these days are typically college graduates, while those taking jobs in factories or in construction are more likely to have a high school education or even, in some cases, less. What is the educational background of today's immigrants?

If one were to look at a single aggregate statistic, the proportion of the adult population with at least a bachelor's degree, you would say immigrants are similar to native-born Americans in educational attainment — the differences between the two groups are trivial (see Table 2-2). Yet that masks important differences. Looking at those with mid-level educational attainment (high-school diploma or some college, including an associate degree), about 60 percent of native-born but only about 40 percent of immigrants are included. However, looking at those with comparatively little education (less than a high school diploma), the proportion of immigrants is nearly triple that of native-born Americans (31.7 vs. 11.0 percent). Among native-born Americans, for every little-educated adult (less than a high school diploma), there are over 2.5 persons with bachelor degrees or more; for immigrants, that ratio is 0.85.

Table 2-2
Educational Attainment of Natives and Foreign-born, 2010

	Less than high school graduate	High school graduate or equivalency	Some College or associate's degree	Bachelor's degree or higher
Native	11.0%	29.7%	30.9%	28.4%
Foreign-born	31.7%	22.5%	18.8%	27.0%

Source: U.S. Bureau of the Census

Again, however, the aggregate numbers really tell only part of the story, and in some regards distort the picture. The less educated immigrants are very highly concentrated among the 37 percent of foreign-born coming from Mexico or the rest of Latin America. *Among the non-Western Hemisphere immigrants, educational attainment on average is higher than it is for native-born Americans.* A far larger proportion of Asian, African, and European immigrants to the United States have bachelor's degrees than do native-born Americans. Yet barely five percent of Mexican immigrants have that level of educational attainment.

This is even truer when one looks at advanced degrees. A larger proportion of immigrants over 25 have advanced degrees (11.1 percent) than do native-born Americans. Yet the variations within immigrant groups are extraordinary. Over 20 percent of those from South and East Asia have such degrees, compared with 1.4 percent of those from Mexico and 2.6 percent from Central America.

This, then, explains the occupational variations noted earlier. Latin American immigrants are poorly educated and thus take jobs that require little in the way of skills, but that do require physical stamina.

Asian immigrants are highly educated and thus take jobs using their educational skills — scientific and managerial type work, for example.

A critically component of education is learning the English language. There is overwhelming evidence from a variety of studies that immigrants have major earnings gains associated with learning English.³³ Workers have limited functionality if they cannot communicate well with coworkers, talk to customers, etc.

What is the evidence regarding English knowledge among immigrants? Table 2-3 shows that, looking at all immigrants, about 30 percent have major English language problems — speaking it “not well” or “not at all.” Again, however, the variations are very striking between various immigrant groups. Those born in Africa or Europe (over 16 percent of the total) have low levels of English language deficiency (12 percent or fewer having serious problems), those born in Asia have bigger problems but still well below the all-immigrant average, but those from Latin America and especially Mexico have huge problems, with a majority of Mexican immigrants to the U.S. unable to speak the language well.

Table 2-3
Language Proficiency of American
Immigrants

	Percent of population speaking English ³⁴ :	
	Not well	Not at all
Native	0.5%	0.1%
Foreign-born	20.0%	10.1%
Africa	7.9%	2.3%
Asia	16.1%	5.4%
Europe	9.4%	2.4%
Northern America	1.2%	0.3%
Oceania	5.9%	1.0%
Latin America	26.3%	15.5%
Mexico	30.9%	18.9%
Other Central America	28.7%	16.6%
South America	17.4%	5.9%
Caribbean	16.5%	10.9%

Source: U.S. Bureau of the Census

With the passage of time, immigrant facility with English improves markedly. Among adult immigrants arriving in the U.S. before 1990, a solid majority (56.3 percent) either only spoke English at home or

³³ Two representative studies are Sherrie A. Kossoudji, “English Language Ability and the Labor Market Opportunities of Hispanic and East Asian Immigrant Men,” *Journal of Labor Economics* 6(2), April 1988, pp. 205-228, and “The Endogeneity between Language and Earnings: International Analyses,” Barry R. Chiswick and Paul W. Miller, *Journal of Labor Economics* 13(2), April 1995, pp. 246-288.

³⁴ This only includes those who speak languages other than English in their homes.

spoke it “very well,” compared with only 36.3 percent of those arriving after 2000 (immigrants with less than a decade in the U.S.)

The reader is reminded that over the past decade the relative importance of immigration from Asia has risen, and that of Latin American Hispanic immigration has fallen rather sharply. This has led Walter Russell Mead to accurately note, “Today’s typical immigrant is not only more likely to speak English and have a college education than in the past, but also to have come legally, with a job already in place.”³⁵

Families and Children

Two important social characteristics of immigrants are worth noting. First, immigrants are more likely than native-born Americans to be married and living in families, as opposed to non-family households or living alone. Second, fertility rates are markedly higher among immigrants than among native-born Americans.

Regarding the first point, 58.5 percent of the immigrant population over 15 in 2010 was married, quite a bit higher than the 47 percent for native-born Americans. The incidence of divorce was likewise sharply lower (7.5 vs. 11.5 percent of the population). While one third of native-born Americans over 15 had never been married, the proportion was lower (one fourth) for immigrants. Immigrants adhere to traditional family living arrangements much more than the general population.

The striking differences between various immigrant groups noted earlier are not so prevalent here. Immigrants, regardless of national origin, are far more likely to be married. That is especially true for Asian immigrants (66 percent married), but is also true of every group, including Mexicans (almost 58 percent married).

Fertility is also quite high among the immigrant population. Looking at native-born Americans, 6.1 percent of women between the ages of 15 and 44 gave birth in the year prior to the 2010 Census, much lower than the 8.5 percent of immigrant women. While there was a good bit of variation among various immigrant groups, virtually all of them had fertility rates greater than the average for the native-born.³⁶ Native-born American women between the age of 15 and 50 have slightly over 51 births per 1,000 in that cohort. For immigrants, the number exceeds 70, well over one-third higher. While every major immigrant group had fertility ratios exceeding the average for native-born Americans (except for those from the Caribbean, where the ratios were nearly identical to that of those born in the U.S.), the variations were still fairly striking. The fertility ratios were especially high for a couple of groups, including African immigrants (where the fertility ratio exceeding 97 was nearly double that of native-born Americans), as well as those from Mexico, where the ratio exceeded 85.

Population projections that state that the white population of the U.S. will be a minority group at some date in the not too distant future reach those conclusions based on the reality that most immigration today is non-white in character, but also on the fact that fertility among these groups is extraordinarily high. This relates to current American demographic exceptionalism –Americans are replacing themselves through natural population increase (2.1 births per woman), while in most of the industrial

³⁵ “America’s New Tiger Immigrants....”

³⁶ Patten, *Statistical Portrait....*, Table 15.

world birth rates are dramatically lower, leading to projections of future population decline. Immigration plays an important role in that phenomenon.

Other Immigrant Characteristics

This brief *tour de horizon* of contemporary American immigration is not meant to be comprehensive, but a few other things about the foreign-born are worth noting:

- The gender distribution of the immigrant population mirrors that of the native-born, with roughly half being male and half being female;
- Only 44 percent of immigrants in 2010 were naturalized citizens; older immigrants tend to become naturalized; naturalization is lower among Latin American, and particularly Mexican foreign-born;
- Because of higher fertility, average immigrant household/family size tends to be at least 25 percent higher than for the native-born, with the numbers particularly large for those from Latin America;
- While about 15 percent of native-born Americans lacked health insurance coverage in 2010, the proportion among immigrants was more than double that and was especially high for Latin American immigrants;
- The median length of time living in the U.S. for immigrants in 2010 was around 15 years; over one-third had been in the country less than a decade, while less than 20 percent had been in America over 30 years.
- A significant proportion of American immigrants, probably over 25 percent, reside in the U.S. illegally under current U.S. immigration law; however, the proportion of new undocumented has declined sharply in recent years.

Income and Poverty Rates of Immigrants in the United States: 2010

We have learned that immigrants work a lot, but also that a significant proportion of them are in less-skilled blue-collar jobs. What does this all mean for the income of immigrant households? The short answer is that the typical immigrant household earns less, but only a bit less, than the typical native-born one.

All of this is shown in Table 2-4. The median household income of immigrants is a bit over eight percent lower than for native-born Americans — not a big difference. Since native-born Americans have had longer periods of living in the relatively prosperous economic environment of the U.S., they probably have higher investment incomes, so the income differentials between households associated with work are probably very small — maybe 5 or 6 percent. Again, however, aggregating all immigrants together disguises interesting differences.

**Table 2-4: Household
Incomes, Native and
Foreign-born, 2010**

	Median Household Income
Native	\$ 50,541
Foreign-born	\$ 46,224
African	\$ 45,926
Asian	\$ 63,777
European	\$ 51,764
Latin American	\$ 38,238

Source: U.S. Bureau of the Census

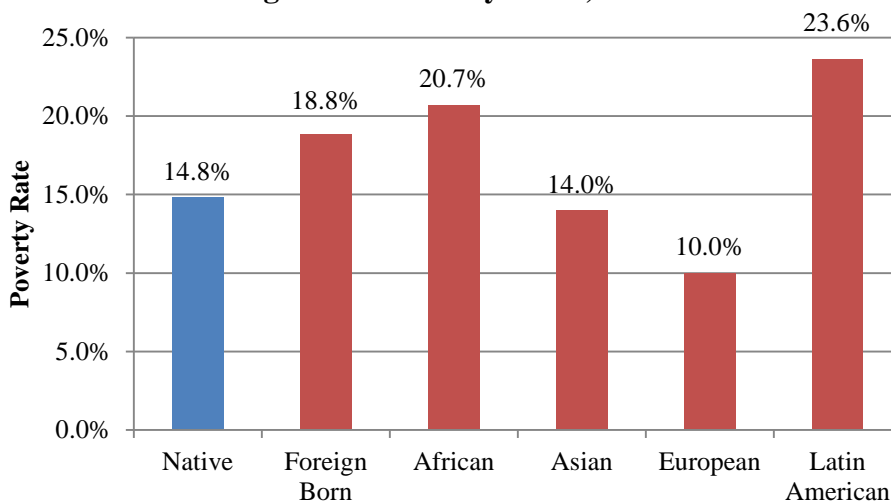
More than 40 percent of immigrants in 2010 were from Asia or Europe. Note that the median household incomes for these groups were much (for Asian immigrants) or modestly (for European immigrants) above the average of native-born. The high labor-force participation rates for these groups, combined with the fact that they are relatively fairly well educated with pretty good jobs, means that they lead typically fairly prosperous lives within the American economic milieu. Yet, again, the aggregate reported incomes for the entire foreign-born population is sharply reduced by relatively low incomes from those migrating from other regions, especially Latin America (African immigrants had median incomes within 10 percent of the native-born norm). For example, the median household income of Mexican immigrants to the U.S. was \$35,254, fully 30 percent lower than those of American-born residents. The previously mentioned decline in the proportion of Hispanic immigrants to the U.S. may mean that the future native-born/immigrant income differential, already very modest, might diminish further or disappear.

Like all humans, immigrants belong to more than one group or classification. They can be classified by gender, race, ethnicity, educational background, age, religion, etc. According to different measures, the economic performance of immigrants might look even more impressive relative to native-born Americans. For example, almost all African immigrants to the U.S. are black. If one compares the incomes of African immigrants to native-born African-Americans, median household incomes are higher for the immigrants than the native-born. Similarly, when the observed income deficiency of Latin American immigrants (a majority of whom are considered Hispanic) are compared with that of Hispanic native-born Americans, the income differential in favor of native-born Americans likewise disappears.³⁷

Of course, by definition, half of the households, either native-born or immigrant, earn less than the median amounts stated in Table 2-4. How many earn so little they are below the U.S. government-defined poverty rate? Figure 2-6 provides the answer.

³⁷ However, if one were to examine the family, as opposed to household, income of immigrants and native-born, the differentials reported above widen somewhat, as the bulk of immigrant households are families to begin with, whereas a larger proportion of native-born households consist of relatively low-income individuals living alone or in another non-family arrangement.

Figure 2-6: Poverty Rates, 2010



Source: U.S. Bureau of the Census

The aggregate immigrant poverty rate, at 18.8 percent, is a good bit above that for native-born, 14.8 percent, although some important foreign-born groups such as Asian and European immigrants have poverty rates lower than the norm for persons born in the United States. Looking at the data for various age groups, the pattern does not change much, with immigrant poverty rates always being somewhat higher in the aggregate. The immigrant/native-born poverty-rate differential is the largest (nearly two to 1) for those 65 or older, presumably because many immigrants did not have significantly lengthy exposure to Social Security to earn substantial retirement benefits. However, given stronger family ties among immigrants on average, I would suspect the immigrant elderly receive more support from their children than is typical among the native-born American population. Interestingly, three-generation households are about twice as prevalent among immigrant as among native-born families.

In the aggregate, across a variety of characteristics, immigrants have more similarities to native-born Americans than differences. Immigrants are slightly below the native-born with respect to income and educational attainment levels, somewhat above them with respect to adherence to traditional family structures. But, excluding Mexican and Central American immigration, by most economic measures immigrants equal or exceed native-born Americans. Asian and European immigrants have higher levels of educational attainment and earnings, and lower poverty rates, than native-born Americans have. As the Asian proportion of the immigrant population rises, the modest observed income deficiencies relative to the national population of immigrants as a whole should disappear.

Chapter Three

Immigration and Economic Growth: Theory and Evidence

Over time, the pace and pattern of economic growth has changed, and the same thing can be said about American immigration. It turns out that periods of dynamic economic growth and change have roughly coincided with surges in immigration. In part, of course, immigration responds to improved economic conditions. But the evidence strongly suggests that the reverse is also true: Growing immigration has added to the nation's economic vitality and entrepreneurial spirit and has propelled the nation toward higher rates of economic growth.

The entire era of 1840 to 1914 was, with a couple of minor lulls, a period of intense and large immigration to the United States. This was also a period during which the U.S. underwent a dramatic economic transformation, becoming the largest economy in the world. Sustained economic growth occurred between 1843 and 1860, as Walt Rostow noted, and this was almost precisely the peak years of the first great immigration surge.³⁸ What Rostow called the "take-off" was then followed by a "drive to maturity" in which the nation completed its basic infrastructure, developing major industries and institutions important to growth, like stock markets and modern financial institutions. This was when American economic exceptionalism became apparent. Although in the world's eye Great Britain remained the leading nation economically as late as 1914, in fact the U.S. had quietly surpassed Great Britain in total output as early as 1873 and in output per capita before 1905.³⁹ The child had become first the equal and then the superior of the parent who had spawned the world's first industrial revolution.

During the period from 1914 to 1945, America's economic superiority grew despite falling immigration (to 5 percent from 14 percent of the American population), in large part because of the differential impact of the two worst wars the planet had ever seen. Major economic competitors to the U.S. like Britain, Germany, and Japan suffered huge physical and financial damages from the two conflicts, while America, protected by two large oceans, was relatively unscathed. From 1945 to 1970, Europe and Japan both grew much faster than the U.S., to the point that by 1970, output per capita in several European nations began to rival that of the U.S.

After 1970, another immigrant surge came to America, less intense in terms of numbers, but important because it has continued unabated for over four decades. Today, the immigrant proportion of the population is over 13 percent, nearing the peaks observed on earlier occasions in post-Revolutionary America. And America's growth rate relative to that in Europe grew substantially again, so that by the year 2000 the output per capita gap of the U.S. and most European nations was relatively large.

All this is supported by the careful analysis of national income accounting data by Angus Maddison, probably the world's leading authority on international macroeconomic statistics. The leading economy in the world in 1820 was considered Great Britain, in the midst of the world's first industrial revolution. Figure 3-1⁴⁰ shows how America's total output (GDP) was barely one-third of that of Britain in 1820, but

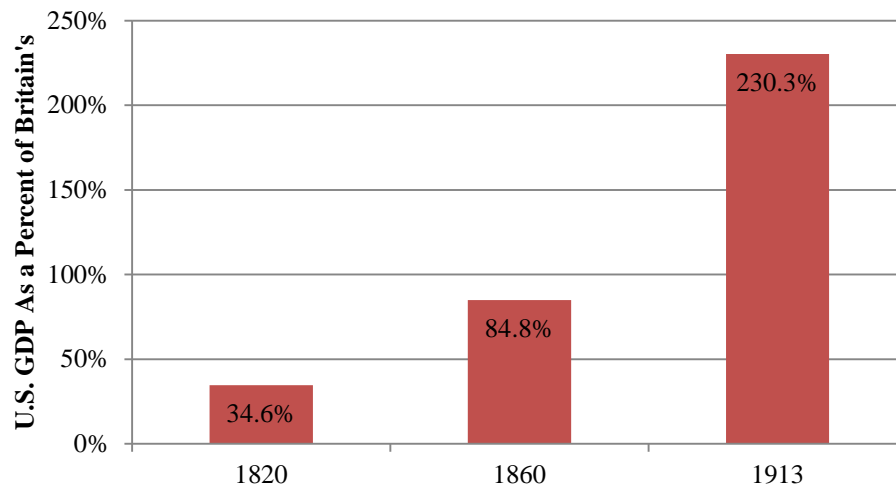
³⁸ Walt W. Rostow, *The Stages of Economic Growth* (Cambridge: Cambridge University Press, 1958).

³⁹ For international data on output, see Angus Maddison, *The World Economy: A Millennial Perspective* (Paris: OECD, 2001).

⁴⁰ Source: Angus Maddison, *The World Economy: Historical Statistics*, (Paris: Organization of Economic Cooperation and Development, 2003); author's calculations.

most of that differential had been eliminated by 1860 — a period in which immigration surged in the U.S. And in the highly immigration-intensive era 1860 to 1913, the U.S. surged far ahead of Britain in total output. By 1913, the last year before World War I, the GDP of the U.S. was far more than double that of Britain.

Figure 3-1: U.S. GDP As % of Britain's, 1820-1913



Source: Angus Maddison, *The World Economy...*, author's calculations

Putting things in a somewhat broader geographical context actually strengthens the conclusion that the era of rising and substantial immigrant presence in the U.S. almost precisely coincides with its rise as a world economic power. In 1820, the U.S. gross domestic product (GDP) was less than one-half of that of Britain, France, or Germany, and only a little over one-half as large as Italy's. Compared to a group of 12 Western European nations including the aforementioned countries as well as smaller nations like Austria, Belgium, Denmark, and Switzerland, the U.S. economy in 1820 was only 8.8 percent the size of this Western European bloc of nations. By 1850, that proportion roughly doubled (to 17.9 percent), and it nearly doubled again by 1880 (to 32.2 percent) and yet once again (to 61.5 percent) by 1913.⁴¹ The U.S. economy was one-half the size of Italy's in 1820, but more than five times as much by 1913 — in part because of the migration of Italian immigrants to the United States.

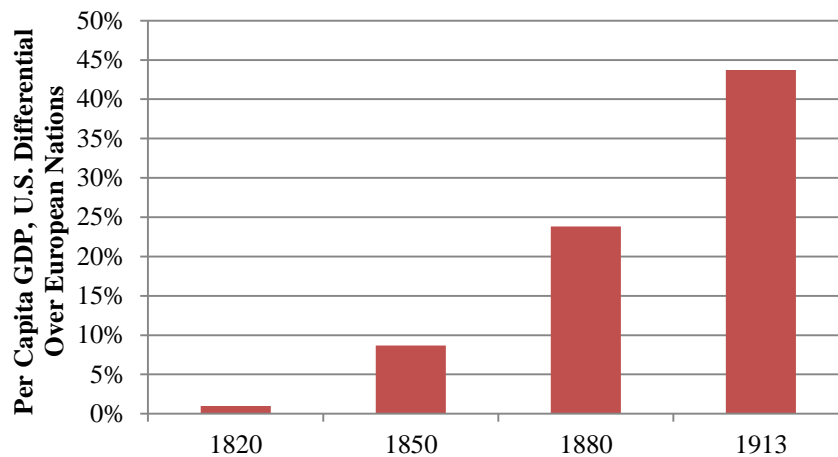
You might say of course the U.S. economy grew more because its population was growing rapidly, partly a consequence of immigration. What is important from the standpoint of the well-being of the people, however, is income per person, adjusted for population change. The period between the end of the Napoleonic Wars (1815) and beginning of World War I (1914) was a century of unprecedented peace and prosperity in Europe, with the industrial revolution and "take-offs" occurring throughout the continent, from Britain in the West to Russia in the East.

In Figure 3-2, we look at per capita GDP in the U.S. compared with the 12 Western European nations discussed above. In 1820, American per capita GDP was almost precisely identical to that in these 12 countries. The GDP differential had grown modestly but tangibly by 1850 (the beginning of the immigration surge), and faster during the period of highest immigration intensity, so that by 1913 the

⁴¹ Unless otherwise indicated, all statistics are from Angus Maddison, *The World Economy: Historical Statistics* (Paris: Organization of Economic Cooperation and Development, 2003).

U.S. had per capita GDP almost 44 percent higher than that in the 12 nations, and higher than in any other country. Whereas in 1820, U.S. GDP per capita was more than 27 percent lower than in Britain, and also lower than that in The Netherlands and Denmark, by 1913 it was higher than in any of these nations (about eight percent higher than in Britain, the top European nation by this criterion).

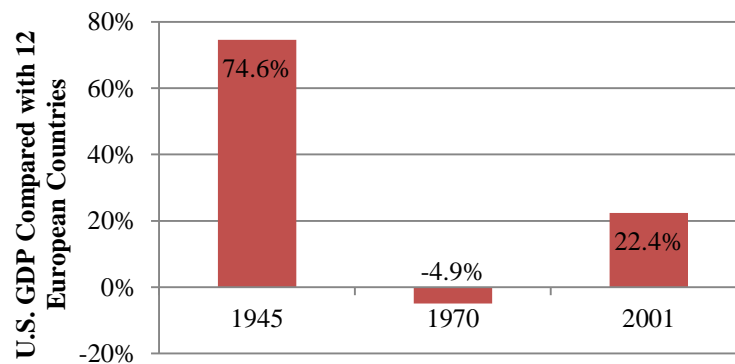
Figure 3-2: GDP Per Capita — U.S. vs. W. Europe



Source: Angus Maddison, *World Economy...*, author's calculations

As indicated earlier, the effects of two world wars devastated Europe but not America, resulting in a commanding U.S. lead in all standard macroeconomic indicators by 1945. Yet in 1945 to 1970, a period of low immigration and a decline in the foreign-born presence in the American population to the lowest levels in probably at least 140 years, America's economic advantage had by one measure disappeared (see Figure 3-3). To be sure, for some of this period, Europe was reconstructing itself from the damage of World War II, so some decline in America's relative economic supremacy was to be expected, but in fact the complete elimination of that supremacy would seem far more than what postwar "catch-up" would explain.

Figure 3-3: U.S. GDP vs. 12 W. European Countries



Source: Angus Maddison, *World Economy...*, author's calculations.

After 1970, the U.S. became a nation with a rapidly growing immigrant population again, and by the beginning of the 21st century its immigrant intensity was beginning to rival the levels achieved in the earlier immigrant surges. It is not totally coincidental, I think, that the U.S. regained a comfortable output superiority relative to the 12 Western European nations (including the four largest). Although the Maddison data used here stop in 2001, a review of other economic growth data since 2001 suggests that the U.S. maintained this output superiority and probably modestly increased it over the next decade (to 2011). Periods of high or rising immigration to the United States were associated with more rapid U.S. economic growth, as well as faster economic growth compared to the old and important nations of Western Europe. Meanwhile, U.S. economic performance languished in the eras of low and declining levels of immigrant labor force involvement in the American economy.

While demonstrating that America's economic advance relative to its major economic rivals in Western Europe was closely tied to the pace and pattern of immigration to the United States is instructive, it certainly is possible that the relationship between the two factors is coincidental or spurious. Other factors impacted on the rate of economic growth — capital formation, taxes and regulations, the intensity of the protection of private property rights, wars, technological progress, etc. The evidence to this point may be necessary to making the case that immigration promoted economic growth, but it is not sufficient.

Why Immigration Positively Impacts Growth: Theoretical Arguments

The output of goods comes about because of the application of inputs or resources — natural resources such as raw materials like coal and iron, human resources in the form of workers, and capital resources in the form of machines and tools. The invention of new ways to combine resources to make goods more efficiently or even entirely new goods — technological progress — is another factor as well, which, in turn implies the presence of both inventors and entrepreneurship (the conversion of new ideas into marketable goods and services). The ability of resources (inputs) to move easily from one location or purpose to another is also an ingredient in economic growth. Related to that, the removal of barriers to the movement of finished goods and services permits specialization and a more efficient division of labor, enhancing the output of goods and services.

Two of the ingredients of growth relate very directly to immigration. Immigrants are workers, human resources, so immigration adds to the stock of workers — human capital, if you will. Also, when workers can expand their productivity simply by moving from A to B, the act of migration itself promotes economic growth. Even within America, the relentless movement of persons, exemplified most vividly by the Westward Movement, is universally believed to be an important contributor to America's emergence as the world's leading economic power.

It is fairly clear that total output should increase with immigration. Immigration increases the quantity of labor, one of the factors of production, and that, in turn leads to output increases. Even opponents of immigration do not deny this, but they would retort that the increase in population associated with immigration may very well exceed the increase in output, so output per capita would fall. They would argue this is particularly true if the immigrant population is low-skilled so it adds little at the margin to output. They would also argue that immigration reduces the stock of capital available per worker, so that labor productivity falls, lowering output per worker or per person in the total population. This is a line of argument that, in effect, is an extension of the Rev. Thomas Malthus's 1798 theory of population,

which argued that population increase and the law of diminishing returns will work to prevent incomes from rising above the subsistence level in the long run, arguably the most spectacularly incorrect economic theory ever posited.⁴²

Moreover, all of this ignores the dynamic effects of immigration. As population increases with immigration, the demand for goods rises and this provides entrepreneurial opportunities, stimulating the spirit of enterprise and innovation. The new immigrant population traditionally saves a good bit of its income, increasing the supply of loanable funds available to banks and other financial institutions and probably lowering interest rates, stimulating new investments and the expansion of the capital stock. The assumption that immigration lowers capital available per worker therefore is probably not valid. Moreover, not only do immigrants bring their labor skills and sometimes even some capital resources with them, but many times they accelerate the rate of technological progress both by inventions they engage in as well as the entrepreneurship they provide. They may well in the long run induce productivity improvements in the native-born population through the impact that an energetic and creative immigrant population has on the competitive impulses that emanate from the American spirit. In short, immigrants might create what economists call “positive externalities” with respect to labor productivity.⁴³

In looking at the immigration/growth relationship, it is important to consider the time dimension. It is possible, for example, that in the very short run — say the first year after new immigrants arrive — that immigration has a modestly negative impact on growth, since the new immigrants often begin at low-skilled jobs and use some of the existing capital stock, having not had time to engage in the activities (like saving a good deal of money) that might ultimately expand that stock.

With the passage of time, however, the growth effects of immigration are far more positive. Immigrants adjust to American culture, improve their knowledge of labor markets and, more importantly, the English language. Assimilation leads to higher worker productivity, including often even inventions and new entrepreneurial initiatives. The high savings rate associated with immigration kicks in, increasing the pool of funds available for investment. In the long run, the positive effects of immigration take hold.

Immigration, Economic Growth, and Human Welfare: Some Evidence

In his major work, *Heaven's Door*, George Borjas, a Harvard economist who himself is an immigrant from Cuba, argues that “the gains accruing to the winners are larger than the losses suffered by the losers. On net, therefore, the country benefits from immigration. The net benefit is small, however, probably around \$10 billion annually.”⁴⁴ In other words, immigration creates winners and losers, but the winners gain a bit more than the losers lose.

For the moment, let us accept the calculations Borjas made around 1998, which need to be updated for three important changes over time. First, of course, prices have risen, so it takes about \$1.40 to buy what \$1 would buy in 1998 (using the Consumer Price Index for All Urban Consumers to do the conversion).

⁴² Thomas R. Malthus, *An Essay on the Principle of Population* (London: J. Johnson, 1798).

⁴³ A paper very much supportive of these points is Larry Neal and Paul J. Uselding, “Immigration: A Neglected Source of American Economic Growth, 1790-1912,” *Oxford Economic Papers*, 24(1), March 1972, pp. 68-88.

⁴⁴ George J. Borjas, *Heaven's Door: Immigration Policy and the American Economy* (Princeton, NJ: Princeton University Press, 1999), p. 87.

So the \$10 billion in 1998 dollars is \$14 billion in 2012 dollars. But immigrants constituted only 10 percent of the population in 1998, but over 13 percent today. Assuming the surplus associated with immigration rises with its relative importance in the population, the \$14 billion figure becomes at least \$18 billion. Moreover, as indicated in the last chapter, there is indication that with changes in the national origins of newcomers, the skill mix has changed appreciably since 1998, as an increasing proportion of immigrants are Asians with very good levels of educational attainment and skills. Presumably, this has a positive impact on the economy. Suppose it increases the gains from immigration by, say, 35 or 40 percent, raising our estimate again, now to about \$25 billion annually — about \$80 per person, or \$320 for a family of four. While not a mammoth number, it nonetheless implies immigration confers, on net, a good deal of benefits for the American population. Since those benefits are on-going, year to year, the discounted present value of, say, the stream of benefits over the next 25 years could well approach \$500 billion, or \$1,600 for every person or \$6,400 for a family of four — no small sum by any accounting.

But these numbers may well grossly *understate* the benefits of immigration. They are based on a mostly static analysis, ignoring indirect longer-term effects. Borjas decries what he sees as a significant redistribution of income from worker wages to capitalist profits (the implicit assumption here is that a dollar received by workers is more valuable to society than a dollar received by owners of capital), but largely ignores the long-term impact on capital formation arising from increasing returns to capital investment implied by his conclusion, and the impact that may have on capital formation. Likewise, he does not extensively analyze the possible impact of infusions of high-level human capital on the level of innovation, or the dynamic effects of new entrepreneurs on output. It is hard to see how these impacts would be negative.

One of the world's leading demographers and immigration scholars, the late Julian Simon, saw things quite differently and more positively than did Borjas. Speaking of the indirect positive productivity effects of immigration, Simon says,

“this productivity effect cannot be captured in simple theory. But we should not allow difficulty of description to cause us to slight the phenomenon. It is this phenomenon that literally makes our world go round, and advances civilization.... we inadvertently do so well while our intentions are mainly to do good. This progress is a happy unintended consequence of our better impulses. It is a product of the skill, courage and humanity of the immigrants who bless us with their presence....”⁴⁵

Simon echoes Adam Smith who argued that trading in goods in services had positive consequences that “were no part of the intention” of the people engaging in trade. Just as allowing the free movement of goods and services enormously expanded the material happiness of humankind, so the free movement in human resources has similar effects.

Moreover, Borjas's belief that immigration has major income-redistribution effects arising from lowering native worker wages is highly debatable. Barry Chiswick and David Card, both highly-regarded economists, have raised criticisms or argued to the contrary.⁴⁶ But the biggest criticism of Borjas probably

⁴⁵ Julian L. Simon, *The Economic Consequences of Immigration* (Oxford, U.K.: Basil Blackwell, 1989), pp. 8-9. See also Simon's *The Ultimate Resource*, Second Edition (Princeton, NJ: Princeton University Press, 1999).

⁴⁶ See, for example, David Card, “Is the New Immigration Really So Bad?” *Economic Journal* 115 (507): 300-323, 2005. Chiswick is arguably America's leading living immigration scholar. Most of his key papers are found in

relates to his failure to consider the long-term impact of immigration on innovation. As University of California at San Diego economist Gordon Hanson puts it, “Simply put, high-skilled immigration promotes innovation.”⁴⁷ The evidence supporting this is substantial. For example, foreign workers educated in the United States are significantly more likely to patent ideas than others.⁴⁸ Immigrant-intensive cities produce more patents in a variety of technology-intensive industries.⁴⁹ Moreover, these positive effects have been achieved despite immigration laws that allocate most legal immigrant slots to relatives of existing immigrants, rather than on the basis of educational training that is a good predictor of potential innovative success.

The “bottom line,” of course, is: What is the overall impact of immigration on the growth of things that matter, such as income and jobs? The Fiscal Policy Institute has an Immigration Research Initiative that has done some good research on recent immigration. In one December 2009 study, they conclude,

“Between 1990 and 2006, the metropolitan areas with the fastest economic growth were also the areas with the greatest increase in immigrant share of the labor force. The economies of Phoenix, Dallas, and Houston saw the fastest growth in immigrant share of the labor force, while all showed well above average economic growth.”⁵⁰

The increasing dependence of American employers on immigrant labor has been noted in several studies. In the 1990s and early 2000s, over half the growth in the nation’s labor force came from immigrants, one study asserted. One of the authors, Northeastern University professor Andrew Sum, asserted, “The American economy absolutely needs immigrants.”⁵¹ The remarkable thing about the increasing dependence on foreign-born labor is that it has occurred *despite* immigration laws that stress family reunification, meaning that non-working family members have actually often had a preference over skilled workers in the allocation of immigrant visas.

Are There Other Severe Negative Consequences of Immigration?

Immigrants disturb the existing order. This disturbance has, it is argued above, overall positive effects on society, raising income and output levels not only in the aggregate, but on a per capita basis, benefiting in the long run the majority of society. But “the majority” is not everyone. Is there collateral damage associated with immigration, and is it large? Borjas seems to say something like, “one group in society, the capitalists, who may constitute 10 percent of persons, gain a lot from immigration, but another group, the workers, who constitute 90 percent of persons, on balance lose, so the small net gains really are not gains at all for most of the population.”

Barry R. Chiswick, *The Economics of Immigration: Selected Papers of Barry R. Chiswick* (Cheltenham, U.K.: Elgar, 2005).

⁴⁷ Gordon H. Hanson, “Immigration and Economic Growth,” *Cato Journal*, 32 (1), Winter 2012, pp. 25-35.

⁴⁸ J. Hunt, “Which Immigrants Are Most Innovative and Entrepreneurial?” NBER Working Paper No. 14920, 2009.

⁴⁹ W. Kerr and W. Lincoln, “The Supply Side of Innovation: H-1B Visa Reforms and U.S. Ethnic Invention,” NBER Working Paper 15768, 2010.

⁵⁰ Fiscal Policy Institute, *Immigrants and the Economy: Contribution of Immigrant Workers to the Country’s 25 Largest Metropolitan Areas*, December 2009.

⁵¹ Jaime Holguin, “Immigrants Driving Economic Growth,” CBS News, found at http://www.cbsnews.com/2100-101_162-531433.html, accessed August 23, 2012.

This conclusion, however, would not be agreed to by some of America's most distinguished writers on immigration, including Barry Chiswick, Andrei Shleifer, David Card, and the late Julian Simon. The preponderance of distinguished expert opinion is on the side of those arguing that the negative wage effects of immigration, if any, are modest, and that the income distributional effects of immigration are small relative to their overall benefit on total incomes available per person. On the wages of the native-born, David Card and Andrei Shleifer, writing in the prestigious *American Economic Review*, summarize it nicely: "The impacts of recent immigrant inflows on the relative wages of U.S. natives are small."⁵² On immigrant wage effects on immigrants themselves, Chiswick summarized things well in an oft-cited paper, "Although immigrants initially earn less than the native born, their earnings rise more rapidly with U.S. labor market experience, and after 10 to 15 years their earnings equal, and then exceed that of the native born."⁵³

Moreover, there are other dimensions of economic life besides wages. Two topics raised frequently by opponents of immigration are unemployment and the burdens upon taxpayers. It is argued that immigrants take the jobs held by native-born Americans, causing unemployment. Moreover, since immigration increases population, this increases the need for public expenditures for everything from educating school children to building roads. Since immigrants usually (or so it is argued) have low-paying jobs, own little property, etc., they pay little in the way of taxes, thus burdening the native-born population.

Immigration and Unemployment

My colleague Lowell Gallaway and I have spent the better part of an academic lifetime studying the determinants of American unemployment, and have yet to see convincing evidence that immigration plays anything but a trivial role.⁵⁴ In our leading work, a 388-page book on U.S. unemployment in the 20th century, we mention immigration on only four pages, and found it to be such a trivial factor that we dropped it from our broader analysis, only after observing, inconsistent with Borjas but supporting scholars like Barry Chiswick and David Card, *there was no statistically significant relationship between wage levels and the presence of immigrants in the population* during the high immigration era of the early 20th century.⁵⁵ This, of course, is inconsistent with Borjas's claim that immigration lowers wages for native-born Americans and has significant income distribution effects.⁵⁶

In another paper, we examined long-term variations in unemployment rates between U.S. states over the period 1960 through 1991, an era in which immigration began to increase significantly in some parts of the country. We examined over 20 possible explanations of why unemployment in some states (e.g., West Virginia) averaged over double the levels in others (e.g., Nebraska). One of the variables examined

⁵² David Card and Andrei Shleifer, "Immigration and Inequality," *American Economic Review* 99(2), May 2009.

⁵³ Barry R. Chiswick, "The Effect of Americanization on the Earnings of Foreign-born Men," *Journal of Political Economy* 86 (5), October 1978, p.897.

⁵⁴ Our most important work is Richard K. Vedder and Lowell E. Gallaway, *Out of Work: Unemployment and Government in Twentieth-Century America*, Revised Edition (New York: New York University Press, 1997).

⁵⁵ *Out of Work*, p. 95.

⁵⁶ A more nuanced interpretation of the immigrant/native wage relationship would be that immigration does lower wages somewhat for unskilled native-born workers but not others, and that the short term negative effects are dissipated in the long run by positive spillover effects of immigration on the American population. For a recent study on this issue, see Pia Orrenius and Madeline Zavodny, "Does Immigration Affect Wages: A Look at Occupation-Level Evidence," *Labour Economics* 14(5), October 2007, pp.757-775.

was the proportion of the population that was foreign-born. Not only was there no statistically significant relationship observed between the immigrant variable and the unemployment rate, the relationship was actually *negative* — larger proportion of immigrants, lower unemployment.⁵⁷ In unpublished work done with Stephen Moore, we found that the 10 states with the highest concentrations of immigrants in the 1960-to-1991 period, the average unemployment rate was 5.9 percent, compared with 6.6 percent in the 10 states with the lowest immigrant intensity.

This is consistent, broadly, with American historical experience. In the first and last two decades of the 20th century (1900-1919, 1980-1999), when either immigration intensity was large or it was rising rapidly, unemployment rates were relatively low, never exceeding 10 percent and being less than six percent in 60 percent of the years. Contrast this to the 1930s, a period when immigration was nearly non-existent and the population was becoming less immigrant-intensive, but when unemployment rates were extremely high. To be sure, there were exceptions (unemployment was also low in the 1945-1970 era when immigration was low), but the notion that immigration caused *higher* unemployment does not seem to fit the historical facts. We will revisit this question a bit again in the next chapter.

Our findings are also consistent with the writings of other scholars. Joseph Altonji and David Card, for example, in a highly cited piece, concluded “We find little evidence that inflows of immigrants are associated with large or systematic effects on the employment or unemployment rates of less-skilled natives.”⁵⁸ In a more recent paper, Card summarized the evidence regarding both wage and employment impacts of immigrant succinctly, “Overall, evidence that immigrants have harmed of opportunities of less educated natives is scant.”⁵⁹

The Fiscal Impacts of Immigration

But might not immigration have what economists call “negative externalities” with respect to ordinary native-born taxpayers? Could it not be that, in order to deal with the need for infrastructure in the form of new roads, school buildings, sewage systems, etc., not to mention rising operating costs associated with greater population (e.g., need for more teachers, policemen, etc.), communities, states, or even the federal government would have to raise taxes?

It is interesting to me that this argument is often raised with respect to immigrants, but not native-born migrants who move internally within the U.S. Arizona has had an influx of immigrants, many of them illegal, especially from Mexico, and there is a lot of complaining about the alleged negative impacts they are having, including on the fiscal condition of local governments. Yet the state also has had vastly larger influxes of native-born Americans, and while locals sometimes talk of constructing Berlin Wall-like

⁵⁷ Richard Vedder and Lowell Gallaway, “Spatial Variations in U.S. Unemployment,” *Journal of Labor Research* 17 (3), Summer 1996.

⁵⁸ Joseph G. Altonji and David Card, “The Effects of Immigration on the Labor Market Outcomes of Less-skilled Natives,” in John M. Abowd and Richard B. Freeman, eds., *Immigration, Trade and the Labor Market* (Chicago, University of Chicago Press, 1991), p. 226.

⁵⁹ David Card, “Is the New Immigration Really so Bad?” *Economic Journal* 115(507), November 2005, p. F301.

barriers with Mexico, they say nothing about restricting movement in the U.S., in part because our Founding Fathers were wise enough to provide constitutional protection against such actions.⁶⁰

Some critics of immigration allege that there are large negative fiscal impacts. For example, a Rice University professor, Donald Huddle, issued a number of studies arguing that the net taxpayer cost of immigration has reached into the tens of billions of dollars.⁶¹ A more careful, and scholarly, review of the evidence, however, does not confirm that result. If I were to summarize the serious scholarly literature, I would say most studies say the fiscal effects of immigration are relatively small, and can go either way — positive or negative.⁶² As one author put it, “In general, there is no strong fiscal case for or against sustained large-scale immigration. The desirability or otherwise of large-scale immigration should be decided on other grounds.”⁶³

In perhaps the most sophisticated analysis of the issue, Alan Auerbach and Philip Oreopoulos conclude that “changes in the level of immigration have an uncertain effect on fiscal balance.... However, the effect, whether positive or negative, is small in magnitude relative to the overall U.S. fiscal imbalance.”⁶⁴ They point out that the fiscal effects vary with the composition of the immigrant population, and the evidence since their article was written more than a decade ago that the immigration population is becoming more skilled suggests a move towards a positive fiscal impact result.

Longer term, the United States, like all major industrialized nations, faces a huge problem of dealing with an aging population, particularly given the provision of benefits like Social Security and Medicare. The presence of a greater proportion of younger workers eases that burden somewhat. There is no question that immigration has a positive fiscal impact, at least for the next several decades, in dealing with these critical problems. Accordingly, on balance I see it difficult to conclude that relatively large-scale immigration can be anything other than a positive factor from the standpoint of the fiscal condition of American governments. The often highly visible negative effects of immigration are more than offset by the less visible but equally real invisible positive effects that the totality of the immigrant presence has on innovation, capital formation, savings, and human resource development. On balance, immigration is a force for material prosperity in the nation, one that should be embraced and enhanced, not scorned and restricted.

⁶⁰ The Census Bureau estimates that from 2000 to 2009, Arizona had net international migration of 272,410, far less than estimated domestic in-migration of 714,354. See U.S. Department of Commerce, *Statistical Abstract of the United States: 2012-2013* (New York: Skyhorse Publishing, 2012), p. 20.

⁶¹ See for example, Carrying Capacity Network, “Mass Immigration Cost American Taxpayers \$69 Billion Net and 2 Million Jobs in 1997,” at <http://www.carrycapacity.org/huddlenr.html>, accessed August 26, 2012.

⁶² The most extensive study of the issue was done in the late 1990s by the National Research Council. See their *The New Americans* (Washington, D.C.: National Academy Press, 1997). There are estimates in the study that both support and refute the hypothesis that immigration has had adverse fiscal impacts. There seems to be an agreement that the higher skilled the immigration population is, the greater the positive fiscal impact, and the move in the 15 years since this study was completed to a somewhat more skilled immigrant labor force suggests that probably an objective estimate of fiscal impacts would conclude that on net, immigration’s fiscal impact was modestly positive.

⁶³ Robert Rowthorn, “The Fiscal Impact of Immigration on the Advanced Economies,” *Oxford Review of Economic Policy* 24 (1), 2008, p.160.

⁶⁴ Alan J. Auerbach and Philip Oreopoulos, “The Fiscal Effect of U.S. Immigration: A Generational Accounting Perspective,” *Tax Policy and the Economy*, 14, 2000, p. 124.

Chapter Four

Immigration, Growth, and Welfare: More Evidence

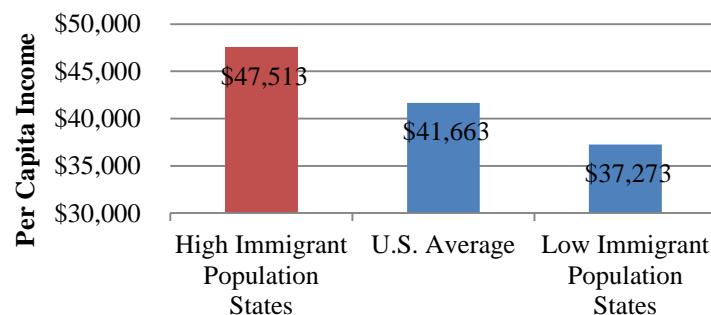
Evidence from the States

Supreme Court justice Louis Brandeis once famously declared that our federal system, now consisting of 50 states, was a “laboratory for democracy,” since “a single courageous state may ... try novel social and economic experiments, without risk to the rest of the country.”⁶⁵ Some states take to the American “economic experiment” with immigration more than others. In 2010, for example, over 27 percent of Californians were immigrants, compared with barely one percent in West Virginia. We can use state data to compare the economic vitality of states with strong immigrant presence and/or growth with other states where international newcomers are relatively rare.

Places with lots of immigrants tend to be prosperous places, while those where immigrants are absent, by and large, are relatively poor. New York and California are relatively high-income, prosperous states with lots of immigrants (20-30 percent of the each state’s population), whereas West Virginia and Montana, two of the nation’s poorest states as measured by per capita income, have less than two percent of their population born in other nations.

I took the ten states in 2010 with the largest proportion of its population being immigrants — California, New York, New Jersey, Florida, Nevada, Hawaii, Texas, Massachusetts, Maryland, and Illinois — and compared their 2011 personal income per capita levels with the 10 states with the smallest proportion of immigrants — West Virginia, Montana, Mississippi, North Dakota, South Dakota, Wyoming, Kentucky, Maine, Alabama, and Louisiana. Taking the median figure for both groups (Figure 4-1) you see a stark difference.

Figure 4-1: Income Per Capita, High and Low Immigration States, 2010



66

Source: U.S. Bureaus of Census, Economic Analysis, and author’s calculations

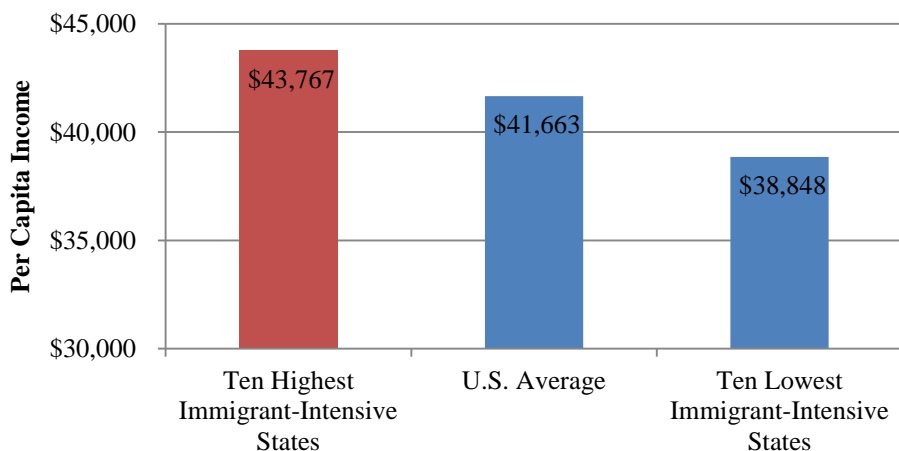
⁶⁵ See his dissent in *New State Ice Co. v. Liebman* 285 U.S. 262 (1932).

⁶⁶ Source; U.S. Bureaus of Economic Analysis, Census; author’s calculations. The 10 most immigrant intensive states in both 1990 and 2000 were: California, New York, New Jersey, Hawaii, Florida, Nevada, Texas, Arizona, Illinois, and Massachusetts. The least immigrant intensive states in 2000 were West Virginia, Montana, Mississippi, North Dakota, South Dakota, Wyoming, Kentucky, Alabama, Louisiana, and Missouri. In 1990, the 10 least intensive states were: Mississippi, West Virginia, Kentucky, Arkansas, Alabama, South Dakota, Tennessee, South Carolina, Iowa, and North Dakota. Some low immigrant-intensive states in 1990 have had significant infusions of immigrants since.

While immigration is associated with prosperity as measured by high incomes per person, it is possible that the direction of causation is reversed from what is implied — immigrants actually go to states that are already prosperous. To some extent that is no doubt true: Indeed, Lowell Gallaway and I have argued continuously that immigrants respond particularly strongly to economic stimuli.⁶⁷ In other words, immigrant-rich communities might be prosperous in spite of, not because of, the foreign-born. There is a way, however, using simple statistical comparisons, to at least partially check for that possibility. We can look at the immigrant-intensity of the population at a date, say 2000, and then look at the economy at a *later* date, say 2011, long after the immigrants have arrived. It is a bit implausible to argue that immigrants arriving in, say, 1990 and counted in the 2000 foreign-born population are drawn to a state mainly based on some expectation of what income would be in 2011, 21 years after arrival. Since the average stay in the U.S. of the immigrant population is about 15 years (see chapter two), the 2000 foreign-born population actually on average arrived around 1985, some 26 years earlier than the date used to measure income per capita in the comparisons here.

Figure 4-2 shows that the top immigrant-intensive states in 2000 still were well above the average of all states in per capita income in 2011, and nearly 13 percent above that of the least immigrant-intensive states. We did a similar calculation, not shown graphically, using a 21-year lag — comparing states by immigration intensity in 1990 with income levels in 2011 — and the results are even more sharply contrasting, with the 10 high-immigrant intensity states having median per capita incomes more than 27 percent higher than the 10 least-immigrant intensive states in 1990. This is generally consistent with the argument that immigrants assimilate more with the passage of time, since they can better learn English language skills, and therefore gain in productivity relative to native-born workers.

Figure 4-2: Income Per Capita 2011, High and Low Immigration States, 2000



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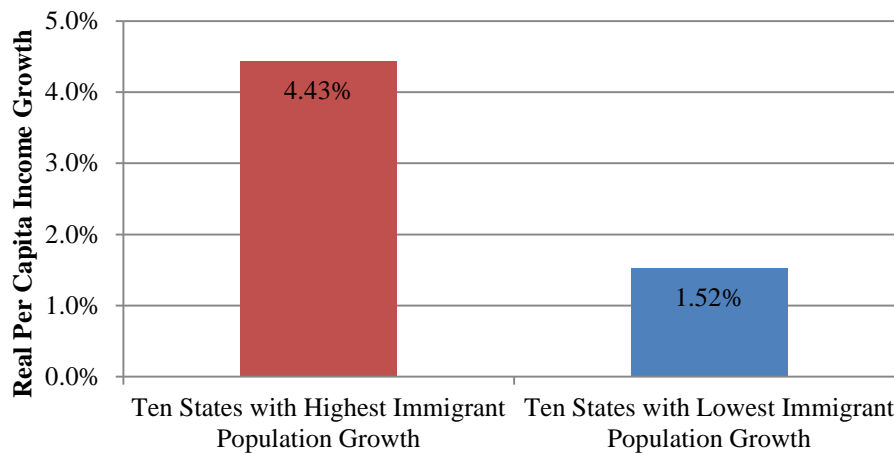
Source: U.S. Bureau of Economic Analysis, author's calculations

⁶⁷See, for example, Lowell E. Gallaway, Richard K. Vedder, and Vishwa Shukla, "The Distribution of the Immigrant Population in the United States, An Economic Analysis," *Explorations in Economic History* 11(1), January 1974, pp. 213-26.

⁶⁸ Sources: U.S. Bureau of Economic Analysis, Census; author's calculations.

Another way of looking at things is to compare the 10 states where the growth in the immigrant population has been greatest in percentage terms, with the 10 states where that growth was the least, and then look at the growth in real per-capita income in the two groups of states. In doing it, we added another refinement, adding together the high-immigrant-growth states and the low-immigrant-growth states, as if they were separate nations, and then doing the calculations, implicitly giving greater weights on the larger population states.

Figure 4-3: Economic Growth, 2000-10, States with High and Low Growth in Immigrants



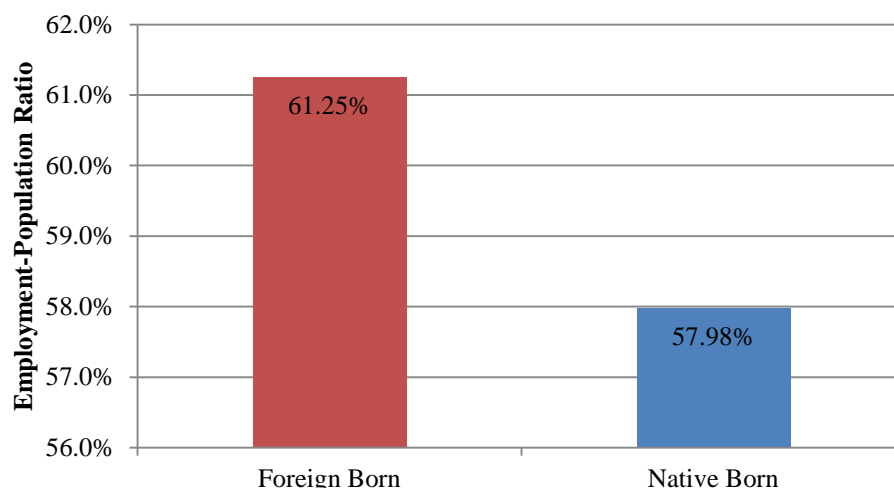
Source: U.S. Bureaus of Economic Analysis and Census, author's calculations

Figure 4-3 shows economic growth was nearly triple the amount in the states where the percent of immigrants was growing rapidly compared with the states where the immigrant growth was smallest (in one state even negative). To be sure, this was a period of very anemic economic growth in the U.S., and we are comparing a prosperous year, 2000, with a year with sluggish growth (2010). Nonetheless, the evidence is clear that economic stagnation was far less in those areas where the immigrant population was growing the fastest. Given the fact that this analysis does not control for other determinants of growth and that there is an issue relating to causality, it would be premature to conclude on the basis of Figure 4-3 that “the immigrant population growth caused economic growth.” That said, however, these results make it highly likely that detractors of modern immigration who argue that it *retards* growth are simply wrong, since areas where the immigrant population was growing the fastest had significantly better economic performance.

Immigration and Work

By far the largest factor in creating output is labor — the contributor of about 70 percent of our national income. The evidence is crystal clear on one point: Immigrants work more relative to their population than do native-born. Figure 4-4 provides the details. While more than 61 of every 100 foreign-born Americans over the age of 16 were working in 2010, fewer than 58 of every 100 native-born Americans were working.

Figure 4-4: Immigration and Work, 2010



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Source: U.S. Bureaus of Labor Statistics and Census, author's calculations

The implications of this for national output are profound. Suppose the nation's native-born population was as active in the labor market as the foreign-born, and the same proportion of native-born Americans over the age of 16 worked. *We would have some 6,606,000 more workers than we actually had,* increasing our labor inputs by 4.75 percent. If we assume that the “elasticity of output with respect to labor input is 0.70,” or, in plain English, that 70 percent of output is attributable to labor, then the implicit increase in total output associated with having native-born Americans as active as immigrants would be 3.325 percent. The 2010 GDP, revised, was \$14,498.9 billion, implying that if native-born Americans worked as much as immigrants, *the GDP in 2010 would have been \$482.1 billion higher.* Even if one assumes the incremental workers were only two-thirds as productive as the average of all workers, the implied output increase is still over \$320 billion — over \$1,000 for every person, native-born and immigrant, in the United States.

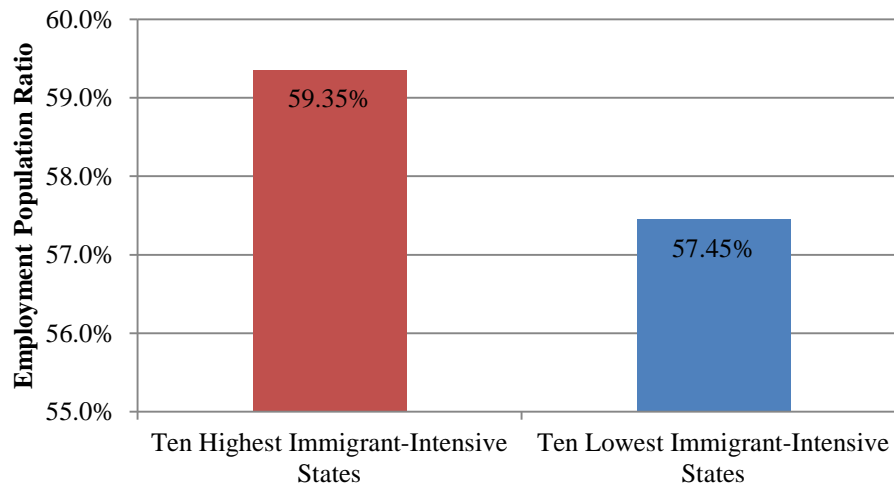
Critics of immigration would protest loudly at this point, arguing mainly that one reason native-born Americans work less is because immigrants take their jobs — sort of an employment version of the Walker thesis (discussed at greater length in Chapter Five), which says immigrants displace native-born Americans in the population. While immigrants may work more, critics say that they push down the native-born employment-population ratio, thereby not increasing total labor inputs but substituting less productive immigrant labor for more productive work from native-born Americans.

It is an interesting theory, but the evidence shows that it is wrong. I took the ten states with the highest proportion of immigrants in 2010, and compared them with the 10 states with the lowest proportion of foreign-born, and then looked at the employment-population ratios for the two groups of states. The results, in Figure 4-5, are very revealing. The median employment-population ratio in the 10 most immigrant-intensive states, 59.35 percent, is nearly two percentage points above that for the least immigrant-intensive states, 57.45 percent. These differing results are only partially explainable by higher labor-force participation by immigrants — if the national data on labor-force participation by immigrant

⁶⁹ Source: 2012-13 *Statistical Abstract of the U.S.*, p. 379, author's calculations.

status hold for this sample of states (containing half the nation's population), then it is certain that a larger proportion of *native-born* were working in the high immigrant states than low immigrant states. Far from destroying jobs for native-born Americans, immigrants appear to have been *creating* them by the dynamic effects of their presence in the economy. *The employment “spillover effects” of immigration on native-born Americans were positive, not negative.*

Figure 4-5: Work and Immigration, 2010



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Source: U.S. Bureau of Labor Statistics, Census Bureau, author's calculations

Even though the evidence above pretty clearly suggests that the substantial presence of immigrants has little impact on the labor market prospects of native-born Americans — and that impact is probably positive, not negative — I decided to do one more test, looking explicitly at unemployment rates in the high- and low-immigrant states. I compared the 10 states where the proportion of the population that was foreign-born increased the most from 1990 to 2010, with the states where it increased the least. Then I took the unemployment rates for each state for six years within that time span (1991, 1994, 1997, 2000, 2003, and 2007) and averaged them to get an approximation of the average unemployment rate in those two decades. I then compared the average unemployment rate of the 10 states with the greatest immigrant influx with the 10 states with the smallest growth in the proportion of the population that was foreign-born.

The results? The average unemployment rate in the high-immigrant states (5.116 percent) was actually lower than the same rate in the low-immigrant states (5.143 percent). Actually, the differences were trivial, leading me to suspect that immigration had little or no effect on unemployment (in keeping with other findings discussed earlier) and certainly did not contribute to higher unemployment among native-born Americans.⁷¹ Looking at all the labor-market data, the evidence suggests immigration had positive potential output effects arising from the fact that immigrants work a lot.

Immigration and Innovation

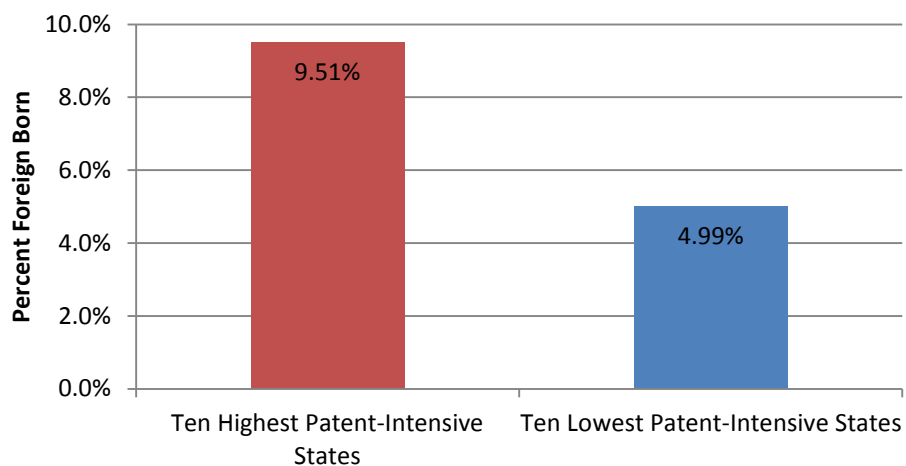
⁷⁰ Source: 2012 *Statistical Abstract of the United States*, p.382, author's calculations)

⁷¹ Economic theory would predict that rate. As immigrants impact the demand and supply for labor, wage rates should adjust for their presence to prevent massive changes in unemployment.

The two most important determinants of growth in output are the growth in inputs (such as capital and human resources) and the improvements in the productivity of those inputs through technological change. Technological change, in turn, contains two key components: inventions and entrepreneurship — taking inventions and making them commercially usable, as well as forming new enterprises to produce goods and services.

Immigrants are disproportionately involved in both phases of technological change. Again, I used the interstate statistical comparison technique presented earlier. Figure 4-6 looks at the proportion of the population that is foreign-born in 2000 in the 10 states with the highest number of patents per population, comparing that with the 10 states with the lowest levels of patent intensity.

Figure 4-6: Patents and Immigration



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Source: *2012 Statistical Abstract of the U.S.*, U.S. Census Bureau, author's calculations

Note that the proportion of immigrants was nearly twice as great in the states with high levels of patent activity relative to states with the lowest amount of such activity (as measured by patents per capita). Since immigrants are a relatively small proportion of the U.S. population, substituting immigrants for native-born in merely five percent of the total population is associated with a nearly doubling in patent activity per capita, implying very high levels of invention among immigrants and/or positive spillover effects of foreign-born on the innovative activity of natives.

This comports with frequent reports and studies verifying the critical nature of immigrants in finding new ways of doing things. One recent study, for example, looked at the 10 colleges and universities receiving the most patents in 2011 (a total of 1,469 patents for all 10 schools), and finds foreign-born individuals were involved in a large majority of the patents in one way or another; at the University of Illinois, for example, 90 percent of patents involved at least one foreign-born, and most of those had a

⁷² Source: *2012 Statistical Abstract of the U.S.*, author's calculations.

student inventor, a particularly important point since immigration laws strictly limit the time these students spend in the United States.⁷³

Immigration and Entrepreneurship

The evidence is crystal clear that immigrants are a highly entrepreneurial group. Let me quote from the 2011 Kauffman Index of Entrepreneurial Activity: "...immigrants were twice as likely to start businesses each month in 2011 as were the native-born. For immigrants, 550 out of 100,000 people started a business each month, compared with 270 out of 100,000 people for the native-born."⁷⁴

Robert Fairlie, supported by the Kauffman Foundation, calculated an index of entrepreneurial activity by taking the percent of individuals aged 20 to 64 who do not own a business in the first survey month but who start one in the following month. For various demographic groups and over time, several conclusions stand out:

- In recent years, the entrepreneurial index of immigrants is almost precisely *double* that of native-born Americans;
- The entrepreneurial index has risen sharply for immigrants over time, going from an average of 0.33 percent in the 1996-98 period to 0.56% in the 2009-2011 period;
- By contrast, the entrepreneurial index for native-born Americans remained flat over the same time period;
- In 1996, less than 14 percent of entrepreneurial activity was conducted by immigrants (still larger than the immigrant share of the population of about 11 percent), but by 2011, some 28 percent of activity was generated by immigrants, more than double their proportion of the population.

Using my interstate statistical comparison approach, I took the 11 states (there was a tie for 10th) with the highest level of entrepreneurial activity on the Kauffman Index in 2011 and compared them with the 10 states with the lowest level of such activity.⁷⁵ The median percentage of the population that was foreign-born (in 2010) was 13.4 percent in the high entrepreneurial states, well over double the 5.75 percent for the least entrepreneurial states.

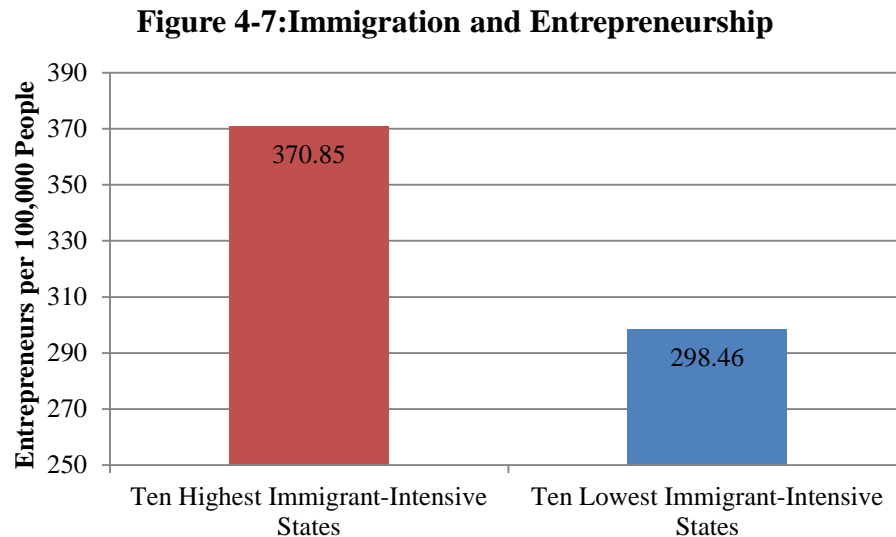
Doing an alternative interstate statistical comparison of entrepreneurial activity, I compared the 10 states of greatest immigrant intensity in 2010 with the 10 states of smallest immigrant presence. I also weighted the data by population — giving greater weight to the larger states. The 20 states collectively contained a

⁷³ Andrew Martin, "Immigrants Are Crucial to Innovation, Study Says," *New York Times*, June 25, 2012, accessed on September 8, 2012 at <http://www.nytimes.com/2012/06/26/business/immigrants-played-role-in-majority-of-us-technical-patents-study-finds.html>.

⁷⁴ Robert W. Fairlie, *Kauffman Index of Entrepreneurial Activity*, 1996-2011, p. 10 (Kansas City, MO: Kauffman Foundation, March 2012), downloadable at http://www.kauffman.org/uploadedFiles/KIEA_2012_report.pdf, accessed September 5, 2012.

⁷⁵ The high entrepreneurial states were Alaska, Arizona, California, Colorado, Missouri, Texas, Florida, Nevada, Vermont, Kentucky, and New York. The low entrepreneurial states were Hawaii, Illinois, Indiana, Michigan, Oklahoma, Pennsylvania, Rhode Island, Virginia, West Virginia and Wyoming.

majority of the nation's population. Figure 4-7 shows the results. The 10 highest intensity immigrant states averaged over 370 entrepreneurs per 100,000 in population, over 24 percent more than for the 10 lowest immigrant intensity states.



Source: Kauffman Foundation, U.S. Census Bureau, author's calculations

Particularly interesting is the very sharp rise in immigrant entrepreneurship over the last 15 years or so. This has occurred simultaneously with the phenomenon of a marked shift in the composition of immigrants towards Asia. The immigrant as a force for innovation, somewhat downplayed by some writers, is becoming increasingly large at the same time that skill levels seem to be rising for the foreign-born population. An innovation itself plays a huge role in economic growth. As early as the 1970s, Edward Denison demonstrated that nearly half of output growth was attributable to "total factor productivity" change, something that is intimately associated with technological change.⁷⁶

All the statistics sometimes fail to convey the full impact of the huge contributions immigrants have made to American innovation. A fairly typical story of immigrant entrepreneurship and innovation is IronKey, a Silicon Valley firm founded in 2005 and specializing in computer security issues.⁷⁷ This is a company that was formed by the immigrant David Jevans (now chief technology officer and board chairman). It has grown rapidly, and by early 2012 employed 100 employees. For key periods of its history immigrants have led the company: Art Wong (CEO), Sam Farsad (Senior V.P. for Engineering), and Ajay Nigam (Senior V.P. for Product Management). Amit Yoran, the son of an immigrant is a member of the company's board of directors. They are keeping alive a tradition of immigrant entrepreneurship dating back to the 19th century, when immigrants like John Jacob Astor and Andrew Carnegie were among America's most successful businessmen.

⁷⁶ Edward F. Denison, *Accounting for United States Economic Growth, 1929-1969* (Washington, D.C.: The Brookings Institution, 1974).

⁷⁷ See Stuart Anderson, "Immigrants, Patents and Silicon Valley," at <http://www.forbes.com/sites/stuartanderson/2012/02/03/immigrants-patents-and-silicon-valley/>, accessed on September 6, 2012.

A 2011 report from the Partnership for a New American Economy reveals that immigrant entrepreneurship, often begun on a small scale, very often led to creation and development of large enterprises.⁷⁸ Of the 500 companies in the Fortune 500, some 90 (18 percent) were founded by immigrants, and another 114 companies were founded by children of immigrants, meaning 204, or 40.8 percent of the companies had strong immigrant ties. These proportions far exceed the immigrant presence in our population. Even before the U.S. Constitution was ratified, immigrant Alexander Hamilton was intimately involved in establishing the Bank of New York, which well over two centuries later survives as a major U.S. financial institution. Moreover, the study finds that the immigrant proportion of new companies actually rose somewhat after 1985 compared with earlier periods.

Not only have immigrants promoted economic growth through innovation and augmenting our human capital stock, they have added to our cultural capital as well. Whether a novel by Saul Bellow, a book on diplomacy by Henry Kissinger, or a haunting commentary by Elie Wiesel, or a play or movie directed or written by Mike Nichols, or a tune by Irving Berlin or a more serious symphonic work by Igor Stravinsky, or a dress designed by Liz Claiborne, the creative works of immigrants have enriched our lives. Even our political, public lives have been enriched by a group of persons constitutionally prohibited from being the U.S. president — immigrants like Felix Frankfurter (Supreme Court Justice), Kissinger or Madeline Albright (Secretaries of State), or Arnold Schwarzenegger (Governor of California) — have enormously impacted native-born Americans. This is quite apart from towering scientific achievements of American immigrants. In physics alone, the immigrant quartet of Albert Einstein, Enrico Fermi, Leo Szilard, and Edward Teller all importantly shaped the development of modern humanity.

Immigration, Savings, and Capital Formation

One of the reasons that the long-term effects of immigration are so much greater than the short-run effects is the fact that, over time, immigrants do a great deal of saving — far more than native-born Americans. A study by Christopher Carroll, Byung-Kun Rhee, and Changyung Rhee used an ingenious technique to estimate savings rates for immigrants to the United States by country of national origin.⁷⁹ At a time when the savings rate for native-born Americans was about 6.8 percent, the authors found the savings rate among immigrants nearly double that amount. The median for 16 immigrant nationality groups was 12.25 percent in 1980, and 13.23 percent in 1990. The authors conclude, “All immigrants have higher savings rates than natives do.”⁸⁰

The macroeconomic effects of this are not trivial. Suppose the savings rate among native-born was 6 percent and it was 12 percent for immigrants and, to keep the analysis comparatively simple, assume both groups had similar average incomes. If five percent of the population were immigrants, the national savings rate would be 6.3 percent, but if 20 percent were foreign-born, the nation rate would rise by 90 basis points, to 7.2 percent, about a \$100 billion annual enhancement of savings at current income levels. In the four quarters prior to the writing of this manuscript, the total personal savings of the U.S. were

⁷⁸ Partnership for a New American Economy, *The “New American” Fortune 500*, June 2011, accessed at <http://www.renewoureconomy.org/sites/all/themes/pnae/img/new-american-fortune-500-june-2011.pdf> on September 8, 2012.

⁷⁹ Christopher D. Carroll, Byung-Kun Rhee, and Changyong Rhee, “Does Cultural Origin Affect Saving Behavior? Evidence from Immigrants,” *Economic Development and Cultural Change* 48(1), October 1999, pp. 33-50.

⁸⁰ “Does Cultural Origin...,” p. 46.

running at an annualized rate of well under \$500 billion a year. Therefore, significant enhancements in the stock of foreign-born would almost certainly have very real and significant effects of increasing savings in the United States. The American savings dearth has led to huge U.S. borrowings from other nations to finance capital formation, increasing the obligations of future generations to make interest, dividend and rental payments to foreign owners of U.S. assets. A larger, more skilled immigrant population could materially reduce this problem long term.

Moreover, trends in immigration since the Carroll, Rhee, and Rhee article was published hint that the immigrant savings rate may be rising even more relative to native-born than it was in 1980 or 1990. For example, the savings rates among Chinese (18.14 percent in 1990) and Indian (14.45 percent) immigrants are much higher than among Mexican immigrants (9.37 percent), and the proportion of Asian foreign-born has been rising relative to that of Mexican newcomers to the United States.

There are many factors determining savings rates, but the generally higher rate of savings among immigrants probably in part reflects the fact that their wealth relative to native-born Americans is modest on arrival in the United States, and therefore the need to save for education, housing and retirement is correspondingly greater. The cultural environment in the land of immigrant origin may play a secondary role, but the correlation between origin country savings rate and that of immigrants to the U.S. classified by national origin is actually rather weak. People who are at the bottom of the economic pile want to rise up in terms of both economic and social status, and the accumulation of wealth helps achieve that goal. And that, in turn, requires savings.

The precise impact a rise in the savings rate would have on investment spending, capital formation, and the long term rate of economic growth is not easy to determine. But one thing is for certain: It would enhance it. (In the appendix, I do some estimations of the immigrant effect of economic growth.) Ever since the first great book in economics was written by Adam Smith more than 235 years ago, economists have noted that diverting resources from consumption to investment spending will enhance the nation's capital stock, the ratio of capital (machine, tools, etc.) to labor, and thus output per worker or per capita. Moreover, many of the innovations arising from patents and other entrepreneurial moves to expand output require capital investment, so enhanced savings from immigrants helps lubricate the way for inventions to become productive innovations.

Chapter Five

The Immigrant as a “Problem”: Anti-Immigrant Sentiments in American History

If, as the previous chapters have suggested, immigration in general has a positive effect on the economic welfare of Americans, why have public policies been adopted that discourage or even forbid some immigration? Why, when economic theory suggests the free movement of resources is good, is there such opposition to the free flow of newcomers to American soil? It turns out that Americans have been expressing concerns about immigrants almost from the very beginning of European settlement in the United States.

Immigrants compete for jobs, even for food in a subsistence frontier environment. Some newcomers speak and dress differently than most of the existing inhabitants, eat seemingly weird and exotic foods, and worship a different God, or no God at all. All of these things scare, frighten, intimidate, mystify and even anger the existing population. The pioneering New Englander Cotton Mather, writing in his diary during a period of particularly high immigration, noted that “It requires a more ordinary Study, to preserve the Morals of our people from corruption at such a time.”⁸¹ So while immigrants promote innovation, capital formation, increase incomes and output on average and in the aggregate, their presence has often led to resentment, and, in time, to restrictions on immigration settlement.⁸²

Concerns Over Immigration Before the Civil War

One great historian of immigration, Marcus Lee Hansen, once argued that complaints about immigrants began shortly after the first boats landed in Jamestown in 1607.⁸³ Since a large portion of the early population were immigrants themselves, and since the volume of immigration apparently slowed in the 18th century, the overall volume of complaints against immigration was relatively modest in the Colonial Era, but still enough to be noteworthy.

Some of the anti-immigrant sentiment, however, was pretty intense. One 1755 publication, speaking of new arrivals, referred to them as “the dregs, the excrescence of England.”⁸⁴ A far more eminent American, Benjamin Franklin, complained frequently about the rising German population in Pennsylvania:

“Those of who hither are generally of the most Stupid Sort of their Own Nation.... Not being used to Liberty, they know not how to make a modest use of it... Why should Pennsylvania,

⁸¹ *Diary of Cotton Mather*, Collections of Massachusetts Historical Society, Seventh Series, VII-VIII (New York: Frederick Ungar), volume 2, p. 80.

⁸² This chapter draws heavily on an unpublished manuscript on American immigration co-authored with Lowell Gallaway, written in the 1970s. My thanks to Prof. Gallaway for permission to use the materials. See also Richard Vedder, Lowell Gallaway, and Stephen Moore, “The Immigrant Problem: Then and Now,” *Independent Review* 4 (3), Winter 2000, pp. 347-64.

⁸³ Hansen won the Pulitzer Prize in History posthumously for his great *The Atlantic Migration, 1607-1860: A History of the Continuing Settlement of the United States* (Cambridge, MA: Cambridge University Press, 1940).

⁸⁴ *Boston News Letter*, April 17, 1755, quoted in Clinton Rossiter, *Seedtime of the Republic* (New York: Harcourt Brace, 1953), p. 150.

founded by the English, become a Colony of Aliens, who will shortly be so numerous as to Germanize us instead of our Anglifying them, and will never adopt our Language or Customs, any more than they can acquire our complexion.”⁸⁵

In this quote Franklin managed to encompass a large number of the objections to immigrants that pervade American history. The racist side of him worried about their skin color, allegedly darker than that of the English. He worried about the loss of political power to the newcomers, and the submerging of the existing English-born culture. He articulated a fear, even an anger, that has been a central part of the dialogue about immigration for the 150 years or so subsequent to Franklin’s writings.

For decades after the Declaration of Independence in 1776, immigrant flows were low because wars (e.g., Revolutionary War, French Revolution, Napoleonic Wars) made trans-Atlantic travel hazardous and poor economic conditions reduced the gains from immigration. But anti-foreign sentiment was far from dead, as manifested in the infamous Alien and Sedition Acts of 1798. Some of our nation’s founders showed decidedly anti-immigrant attitudes. Alexander Hamilton, himself an immigrant, attributed, bitterly, Thomas Jefferson’s triumph as president (over John Adams) in the 1800 election to immigrant voting: “had foreign auxiliaries been rejected on both sides, the man who ostentatiously vaunts that the doors of public honor...have been burst open to him, would not now been at the head of the American nation.”⁸⁶ Hamilton’s leading rival, Jefferson was no great fan of immigration either, predicting that immigrants from monarchical states would either retain their anti-Republican views or “if able to throw them off, it will be in exchange for an unbounded licentiousness, passing...from one extreme to another.”⁸⁷

Complaints about immigrants did not just come from political elites worried about their impact on issues of governance. More ordinary people complained about the habits of the foreign born. One New York charitable organization opined about immigrants:

“They are frequently found destitute in our streets ... they are found ... in ... our penitentiary, and our state prison ... they are too often led to want, by vice, and by habit, to form a phalanx of plunder and depredation....”⁸⁸

The complaints about immigration before 1840, however, on the whole had little operational meaning. Immigration started growing after 1820, gathering more steam in the 1830s, and reached a torrent in the 1840s and 1850s, by 1860 reaching a proportion of the population about as high as ever reached, before or since, in post-Revolutionary America. With this rise, however, came a huge increase in the magnitude

⁸⁵ “Benjamin Franklin on ‘Stupid, Swarthy Germans,’” at http://www.dialoginternational.com/dialog_international/2008/02/ben-franklin-on-stupd-swarthy-germans.html , accessed August 30, 2012.

⁸⁶ Henry Cabot Lodge, ed., *The Works of Alexander Hamilton* (New York: G.P. Putnam’s Sons, 1904), Vol.8, p. 286.

⁸⁷ Thomas Jefferson, *Notes on Virginia*, William Peden, ed. (Chapel Hill, NC: University of North Carolina Press, 1955), pp.84-85.

⁸⁸ *Second Annual Report of the Managers of the Society for the Prevention of Pauperism in the City of New York*, December 19, 1819, reprinted in Edith Abbott, *Historical Aspects of the Immigration Problem: Select Documents* (Chicago: University of Chicago Press, 1926), p. 560.

of complaints about immigration, and it entered the American political debate as an issue of considerable importance.

The complaints were probably only partially related to the magnitudes of immigration, and more to the composition of the new foreign-born population. There was a massive increase in the number of immigrants from Ireland and, secondarily, from Germany. The Irish had actually constituted a large proportion of those moving to America in the 1820 and 1830s, but the numbers were relatively small. For example, of the 45,374 immigrants arriving in fiscal year 1835, 20,927, or 46 percent, came from Ireland. Sixteen years later, in 1851, the total number of immigrants increased nearly eight-fold to 379,466, while the number of Irish reached an extraordinary 221,253, over 10 times the number arriving 16 years earlier. Similarly, three years later, nearly as large number of Germans constituted over half of the nearly 428,000 arrivals.⁸⁹ These groups had unfamiliar, alien habits. Many of them were Roman Catholic, so anti-Catholicism ran high. Others, notably the Germans, did not speak English, at least not well.

Prominent, literate Americans shared the concerns of more humble folks. George Templeton Strong recorded in his diary, "Our Celtic fellow citizens are about as remote from us in temperament and constitution as the Chinese."⁹⁰ An even more prominent American, the inventor of the telegraph and Morse Code and also one of America's most distinguished artists, Samuel F.B. Morse, was a very prominent anti-Catholic/anti-immigrant writer. Writing in 1834 as "Brutus," Morse proclaimed:

"Surely American Protestants, freemen, have discernment enough to discover beneath them the cloven foot of this subtle heresy. They will see that Popery is now, what it has ever been, a system of the darkest political intrigue and despotism, cloaking itself to avoid attack under the sacred name of religion."⁹¹

For the first time in American history, the anti-immigrant sentiment reached such a pitch that it prompted very significant political action in the form of the Know Nothing movement of the 1850s. After success in the 1854 elections, the Know Nothings, dubbed the American party, put together a serious presidential ticket of Millard Fillmore and A.J. Donelson and adopted a platform that declared: "Americans must rule America," proposing "a change in the laws of naturalization, making a continual residence of twenty-one years ... an indispensable requisite for citizenship."⁹² The ticket did very well, gaining over 21 percent of the vote in the 1856 elections, and taking the state of Maryland (easily).

Anti-Immigrant Sentiment, 1860-1930

⁸⁹ These statistics come from U.S. Bureau of the Census, *Historical Statistics of the United States, Colonial Times to 1975* (Washington, D.C.: Government Printing Office, 1976), p. 106.

⁹⁰ Allan Nevins and Milton H. Thomas, eds., *The Diary of George Templeton Strong*, Vol. II (New York: Macmillan, 1952), the entry for July 17, 1857, p.348. As bad as the Irish were to Strong, the French or Italians were worse: "A dirty Irishman is bad enough, but he's nothing comparable to a nasty French or Italian loafer" (diary entry for November 6, 1838).

⁹¹ This appeared in his *Foreign Conspiracy Against the Liberties of the United States*, quoted in Kenneth C. Davis, "'No Immigrants, No Catholics': The Other Morse Code," accessed on August 31, 2012 at http://www.huffingtonpost.com/kenneth-c-davis/no-catholic_b_553393.html.

⁹² See Thomas H. McKee, *The National Conventions and Platforms of All Political Parties, 1789 to 1905* (Baltimore; Friedenwald, 1906) for a good statement of 19th and early 20th century immigrant attitudes.

Anti-immigrant feelings declined a good bit after 1856. First, the nation was distracted by the more serious problem arising from slavery and the regional antagonisms that led to war five years later. The overall volume of immigration declined, temporarily it turns out, as the 1870 influx was the second largest on record. But Irish emigration declined sharply, to levels lower than for the British. The newly triumphant Republican party of Abraham Lincoln started out generally pro-immigrant, anti-restriction, while the Democrats were more willing to embrace limits on immigration. But both parties moved to more anti-immigrant postures over time.

In 1868, for example, the Republicans in their party platform proclaimed that “foreign immigration, which ... has added so much to the wealth, development, and resources, and increase of power to this republic ... should be fostered and encouraged by a liberal and just policy.” A dozen years later, however, the same party proclaimed it “would limit and restrict that [Chinese] immigration by the enactment of such just, humane and reasonable laws and treaties as will produce that result.”⁹³

The Democrats were even more strident. By 1892, for example, the Democrats proclaimed

“we heartily approve all legitimate efforts to prevent the United States from being used as the dumping grounds for the known criminals and professional paupers of Europe, and we demand the rigid enforcement of the laws against Chinese immigration, or the importation of foreign workmen under contract....”

Already the first restrictive laws (against Chinese immigration) were in effect and both parties spoke of the need of more restrictions. But the racist anger over Chinese immigration was small in magnitude compared with the opposition that developed against the so-called “new” immigration from southern and eastern Europe that began in earnest in the 1880s and by the mid-1890s provided the dominant source of American immigrants. By 1896 even the Republicans were calling for extending immigration laws “as to exclude from entrance to the United States those who can neither read nor write.” The Democrats wanted to “prevent the importation of foreign pauper labor,” whatever that was (any worker whose wage was low?).

Increasingly, Americans of education and prominence spoke up against the new immigration. Nathaniel Southgate Shaler, for example, writing in 1894, said: “Dangers ... arise from immigration of Europeans from those states where the mass of the population has never had a chance to acquire the traditions of freedom and responsibility which are the foundation of true citizenship.”⁹⁴

Even more eminent Americans led the anti-immigrant crusade. A quintessential example was Francis Amasa Walker. Walker had an extraordinary career, having served as the superintendent over several decennial censuses of population, and was considered perhaps America’s foremost statistician. He also was the first president of the American Economic Association, the author of a much-read textbook in economics, and the president of the Massachusetts Institute of Technology (M.I.T.), whose rise to eminence as an academic institution may be ascribed to Walker’s leadership. Walker believed that while

⁹³ All the quotes from party platforms come from McKee, *The National Conventions and Platforms...*

⁹⁴ National S. Shaler, *The United States of America* (New York: D. Appleton, 1894), p. 1283.

immigration made sense and added a positive contribution at one time, changing conditions, such as the closing of the American frontier and falling agricultural prices, sharply reduced its benefits. The biggest problem, however, to Walker was the declining quality of immigrants to our shores:

“the question to-day is.... protecting the American rate of wages, the American standard of living, and the quality of American citizenship from degradation through the tumultuous access of vast throngs of ignorant and brutalized peasantry from the countries of eastern and southern Europe.”⁹⁵

Walker was also well known for his position, now known as the Walker Thesis, stating that increases in the foreign born population lead to a decline in the growth of the native born population, so that immigrants substitute for native born, with the overall population remaining unchanged. Since, in Walker’s view, the immigrants on average were less productive and desirable than native born Americans, this was another reason to favor immigration restriction.

Even more imminent persons than Walker joined those concerned about the new migrants from Eastern and Southern Europe. Woodrow Wilson, for example, generally favored immigration and even as President vetoed some restrictionist immigrant legislation, but he once referred to the new immigrants of being of “inferior stock.”⁹⁶ But the attacks by eminent Americans were more refined than some of the inflammatory rhetoric of less-educated folks. One popular press account declared: “The flood gates are open. The bars are down. The sally-ports are unguarded. The dam is washed away.... The scum of immigration is viscerating upon our shores. The horde of \$9.60 steerage slime is being siphoned upon us from continental mud tanks.”⁹⁷

At the same time that people like Walker attacked the “new immigrants,” others presented a positive, even romanticized assessment of the earlier movement and the people of northwestern Europe. For example, Kendric Charles Babcock said, “the value of the Scandinavians is that they choose a pursuit in which they excel.... They are faithful, hard-working and honest....”⁹⁸ John R. Commons, a famous economist and a founder of institutional economics, who generally deplored the new immigration, conceded they had some redeeming qualities: “...partly fear, partly hope, make the fresh immigrant the hardest, if not the most intelligent, worker in our industries.”⁹⁹

Not all of the criticism fell on the immigrants themselves. It was widely reported that the immigrants were “exploited” by unscrupulous employers. As one prominent New Yorker put it:

“Employers of the exploiting type make no mistake.... It [immigrant labor] is the best labor in one particular. It can be exploited... Lower wages, longer hours, crowded living quarters, fewer

⁹⁵ Francis A. Walker, “Restriction of Immigration,” *The Atlantic Monthly*, 77 (464), June 1896, 822-829.

⁹⁶ In his *History of the American People* (New York: Harper and Brothers, 1902).

⁹⁷ See John R. Commons, *Races and Immigrants in America* (New York: Macmillan, 1924), p. 166.

⁹⁸ Kendric C. Babcock, “The Scandinavian Contingent,” *Atlantic Monthly*, May, 1898, pp. 661 and 666.

⁹⁹ *Races and Immigrants*, p. 127.

claimants in case of death or injury from accidents, less trade-union 'nonsense,' ...less sympathy from the disinterested public for the laborer's side when there is a dispute...."¹⁰⁰

The anti-immigrant sentiment around 1900 and after was profoundly influenced by a racially based perspective, sometimes called the Nordic or Teutonic thesis, probably most starkly presented by Madison Grant, but organizationally manifested in the Immigration Restriction League and the American Eugenics Society.¹⁰¹ The Immigration Restriction League, founded in 1894 by Robert DeCourcy Ward and administered by Prescott F. Hall, favored virtually all forms of immigration restriction: numerical limits, higher taxes on aliens, literacy tests, deportation of public charges, etc. Members included several notable Americans already cited, such as Madison Grant, Nathaniel Shaler, and Francis A. Walker, but also a famed novelist, Owen Wister (author of the *Virginian*), a descendent of a signer of the Declaration of Independence (prominent Bostonian Robert Treat Paine), as well as others.

The American Eugenics Society came later, towards the end of the great debate over immigration restriction discussed in the next chapter, but it explicitly argued that there were genetic based differences in intelligence and other attributes associated with productivity, consistent with the view that southern and eastern European immigrants were somehow inferior. It, too, attracted a bevy of important Americans, including arguably the nation's top economist (Irving Fisher of Yale University), Margaret Sanger (founder of Planned Parenthood), and many heirs and heiresses of great American fortunes, including J.P. Morgan, Jr. (investment and commercial banking), Mary Duke Biddle (American Tobacco company heiress), and Miss E.B. Scripps (newspapers).

The fierce anti-immigrant sentiment of the period between 1890 and 1924 slowly dissipated with the very sharp reduction in immigration that accompanied restrictionist legislation of the 1920s. By 1970, fewer than one in 20 Americans were immigrants, and the still living southern and eastern European immigrants were mostly now very late-middle-aged or older and numerically not of huge importance in a nation that had doubled in size since the last great wave of immigrants, to over 200 million persons. But a new wave of immigration began around 1970, and while the numbers have been smaller relative to population than the immigrant waves around 1850 and 1900, what it has lacked in numeric strength it has made up in duration, continuing relatively unabated for over four decades.

And with growing immigration came growing criticism of the newest wave of foreign-born. Again, the reprise was largely the same: This group of newcomers was less skilled, less motivated, and less willing to assimilate than the previous group. Just as the immigration critics writing around 1900 spoke fondly of the migrants from northwestern Europe who had come earlier, so the new critics generally professed to believe immigrants of the early 20th century had made positive contributions, but that positive contribution was now turning negative owing to the inferior characteristics of the new breed of newcomers. Moreover, the new immigrants were allegedly imposing huge burdens on taxpayers, an argument of growing potency owing to the growth of the American welfare state in the 20th century.

¹⁰⁰Edward T. Devine, "The Selection of Immigrants," *The Survey*, 1911, pp.715-16. Reprinted in Philip Davis, ed., *Immigration and Americanization* (Boston: Ginn and Company, 1920).

¹⁰¹ See Madison Grant: *The Passing of the Great Race*, 4th revised edition (New York: Scribners, 1922).

And, like before, some of the critics were relatively well-educated persons, including Harvard academics. In my mind, the premier example is George Borjas, who has argued that the post-1965 immigrants were generally less skilled and assimilated less well than their predecessors, and that this imposed burdens on the taxpayer. A few quotes are in order from Borjas's most famous work, *Heaven's Door*:

"There has been a precipitous decline — relative to the trend in the native population — in the average skills of the immigrant flow reaching the United States."

"...changes in the national origin mix of immigrants induced by the 1965 Amendments [discussed in the next chapter] ... can explain the decline in the economic performance of successive immigrant waves."

"Because the children of particular ethnic groups tend to follow in the group's footsteps, ethnic capital effectively lowers the flame under the melting pot from a full boil to a slow simmer"

"The immigration debate is a tug-of-war between the winners and the losers."

Some of the things Borjas says are correct. There was a relative earnings decline among immigrants after 1965, as the new wave of largely Latin American immigrants was relatively uneducated and unskilled. Borjas seems to long for an immigrant population with a greater skills base, a goal with which I heartedly agree. But too often Borjas seems to imply that the overall magnitude of immigration is too high, that the burdens of immigrants are onerous, etc., which simply does not seem to fit the evidence as I see it. Moreover, recent shifts in the ethnic composition of the new immigrant population seem to have alleviated considerably Borjas's concerns of 14 years ago. More basically, Borjas's analysis ignores some of the longer-term synergies that immigrants bring, particularly their important contribution in expanding innovation and entrepreneurship.

Borjas's views are expressed in a relatively dispassionate and scholarly fashion, unlike some critics from the popular press. Here, my favorite example is Peter Brimelow, who, like Borjas, is himself an immigrant (from Great Britain) to the United States. A few quotes from his *Alien Nation* give the flavor of the Brimelow criticism:

"When you enter the INS waiting rooms you find yourself in an underworld that is not just teeming but is also almost entirely colored."

"...the recent immigration peak of 1990-91 towers far above the previous record set in 1907..."

"Absolute numbers matter because concentrations can cause trouble."

“...half of all the legal immigrants in the developed world are zeroing in on a country with 7 percent of the world’s land surface and less than five percent of its population. No wonder the boat is starting to rock.”¹⁰²

Brimelow’s comments reveal his distaste for “colored” immigrants, and uses a fact (high immigrant arrival numbers) to mischaracterize the density of international migration (the population of the U.S. in 1990 was three times what it was in 1907, so the recent absolute size of inflows are actually much smaller relative to population than in the early 20th century wave). The concern about immigrants concentrating in certain communities echoes similar concerns early in the 20th century that had no validity in any meaningful economic sense, and, indeed, the immigrant concentrations are actually smaller relative to population than those around 1900. Moreover, the dispersion of immigrants is growing in recent years, as the biggest increase in immigrant population has been in small states with heretofore small foreign-born presence. The concentrating of immigrants on seven percent of the land surface is no different than it was 100 years ago, and the nation survived that “concentration” rather well. And is “the boat starting to rock,” whatever that means? I see no compelling evidence of that.

Just as in the early 20th century, anti-immigrant forces today have coalesced in organizations to fight perceived dangers from an excessive influx of foreign-born. Perhaps the most prominent group is the Federation for American Immigration Reform, or FAIR, led by Daniel Stein. The group proclaims on their web page that “FAIR seeks to improve border security to stop illegal immigration, and to promote immigration levels consistent with the national interest — more traditional levels of about 300,000 a year.”¹⁰³ Although the most prominent supporters of FAIR are perhaps less eminent than those supporting the Immigration Restriction League a century earlier, they include some accomplished Americans, including Richard Lamm (three time Colorado governor and prolific writer), the late Fred Ikle (former Undersecretary of Defense and a leading architect of the Reagan Era Cold War strategy), and Pat Choate (an economist who was Ross Perot’s running mate on the Reform Party ticket in the 1996 presidential race).

In two ways, the more recent immigration protest movement differs from that of a century ago. First, there is today a distinction between illegal and legal immigration, and some persons opposing immigration are solely or mainly interested in the illegal entry into the U.S. In principle, one could be a strong proponent of legal immigration yet favor harsh measures against illegal immigrants. Second, there is something of an environmental dimension to today’s anti-immigration movement, suggesting that “people pollution” into America from immigrants could degrade the environment. Although the Sierra Club does not currently take a position on immigration, historically the issue has been of paramount concern to some of its members (the organization promoted Paul Ehrlich’s book *The Population Bomb*, which argued that the world faced serious problems from overpopulation).¹⁰⁴

¹⁰² Peter Brimelow, *Alien Nation* (New York: Random House, 1995). Perhaps my most bizarre experience as a participant in the dialogue about immigration occurred a number of years ago when I debated Brimelow on the topic — in the New York apartment of one of the economically most successful of the immigrants to the U.S., George Soros. I found it ironic that a native-born whose American roots date back to before the American Revolution was defending immigration against an immigrant in the home of still another immigrant.

¹⁰³ Go to <http://www.fairus.org> for more information about FAIR.

¹⁰⁴ Paul R. Ehrlich, *The Population Bomb* (New York: Ballantine Books, 1968).

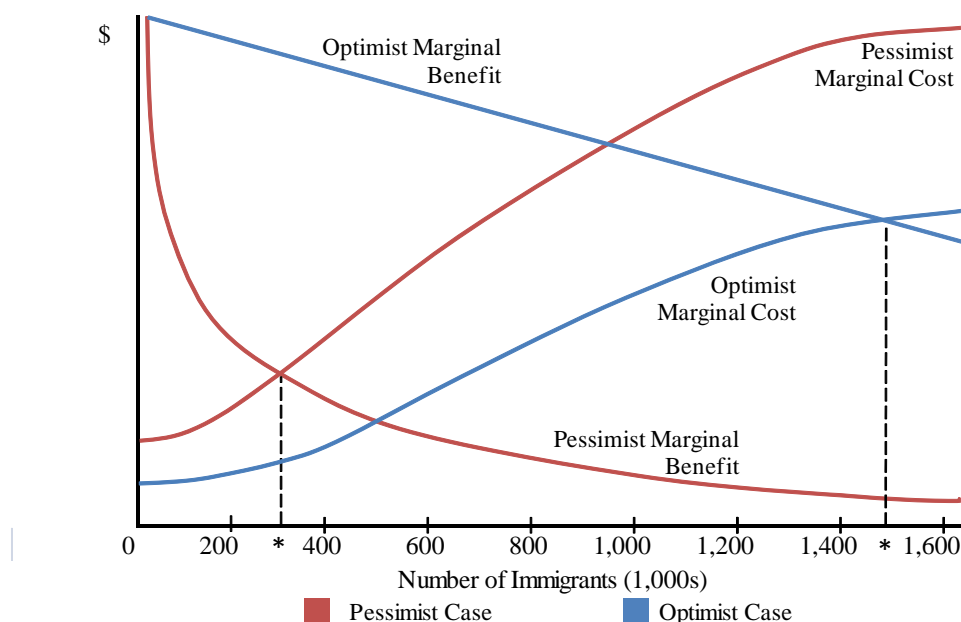
Optimists and Pessimists

After reviewing several hundred years of debate about American immigration, I would conclude there have always been two schools of thought on the subject. On group, who we might call the optimists, believes that immigration not only promotes American idealism and economic exceptionalism, but promotes the general welfare of Americans as well as those migrating to these shores. These folks tend to oppose stringent immigration restriction. Today, they are well represented at the *Wall Street Journal*, where Steve Moore often writes supporting immigration liberalization, continuing a tradition of writing on that topic with authors as diverse as the late Julian Simon and myself. His colleague Jason Riley has written a fine and ringing defense of immigration.¹⁰⁵ Academics like Barry Chiswick and David Card are in the optimistic tradition as well.

But there has long been a pessimistic school of thought, those who find immigration a threat, a discordant disturbance to American life, with all sorts of negative byproducts, from lower wages for native workers, to greater congestion in the cities, to cultural clashes among the population. Writers like Peter Brimelow, academics like George Borjas (although his position has varied over the years), and professional anti-immigrant leaders like Dan Stein are in the pessimistic camp.

It is possible to express these two visions more schematically, as illustrated in Figure 5-1, where I present two assessments of the marginal benefits of adding one more immigrant for different levels of inflows of foreign-born, and then compare that to assessments of the marginal costs to society of adding that incremental immigrant. The social welfare would be increased if immigration were expanded to the point where the marginal benefits no longer exceeded the marginal costs.

Figure 5-1



¹⁰⁵ Jason Riley, *Let Them In: The Case for Open Borders* (New York: Gotham Books, 2008).

To the pessimists, the benefits accruing from additional immigrants are relatively modest, and sharply decline as more immigrants arrive, so the optimal number of immigrants entering is reached at a low number. In this representation, the optimum comes at the level of 300,000 immigrants (i.e. the level proposed by FAIR). This represents a sharp reduction from existing levels, and probably would require a moratorium on many presently legal immigrant admissions (which is precisely what FAIR advocates).

To the optimists, the benefits of adding another immigrant to the country tend to be very large and fall slowly, if at all, as the number of newcomers grows. Moreover, the marginal costs are relatively low and perhaps rise with bigger numbers, but not abruptly. This leads to the marginal benefits and marginal costs being equated at a very large number — 1,500,000 in this representation, a marked increase over current immigration levels, although a number relative to population still only about one-half the peak inflows registered in the 1850s and 1900s. I suspect some (Jason Riley in particular) would actually advocate even larger numbers. Remember, Figure 5-1 is just an example, not a statement basic on actual empirical evidence.

Of course, the truth could lie in between, which is where we are now. Yet I think the evidence is pretty persuasive that, on net, immigration confers lots of benefits on America, and it is for that reason I advocate the optimist position. Yet in the realm of public policy, over time the pessimistic position increasingly became enshrined in laws that restricted the flow of immigration, and partly closed the gates of economic opportunity for aspiring Americans. To that story we now turn.

Chapter Six

Building Paper Walls: U.S. Immigration Restriction

Authoritarian societies, like the old Soviet Union and its satellite countries like East Germany, built walls to keep people in — to prevent out-migration of its citizenry. Prosperous democratic societies like the United States rarely build walls (although the partially built fence along the Mexican border is a near equivalent), but they use laws to restrict in-flows of people — paper Berlin Walls, as it were.

While the previous chapter demonstrated there was a good amount of anti-immigrant sentiment in colonial America and in the first century after independence, the rugged individualism of America and its abhorrence of restrictions on individual freedom prevented any serious immigration restriction from occurring. To be sure, the nation wanted to count the new arrivals, get their names and their place of origins. They wanted to screen out undesirables, meaning criminals, insane persons, and sickly individuals who might spread disease. But there was essentially no restriction on movement to America until after the Centennial of the nation was celebrated in 1876.

Yet in the 50 years between the Centennial and the nation's Sesquicentennial in 1926, the nation built ever bigger and more effective paper walls in the form of statutory restrictions against emigration from other countries to the United States. For a majority of that period, the restrictions were tiny and limited to a very small segment of the would-be migrant population. But towards the end of that half century, immigration legislation assumed first a moderately restrictive dimension and then became a very severe limit on human mobility.

For decades, immigration shrank as a factor in American life, hobbled by the legislation enacted in the years before the Sesquicentennial (1926). Yet by the time the nation celebrated its Bicentennial in 1976, the nation retreated a bit from the draconian immigrant policies adopted decades earlier. Perhaps Americans were a bit embarrassed — after all we were the land of opportunity, a country occupied by descendents of immigrants. The overt bias against some nationalities, ethnicities and races was not in keeping with an America that prided itself that all persons — regardless of economic condition, race, gender, religion, etc., could achieve the American Dream. We were a bit ashamed at turning away persons in great peril because of political conditions in their homeland. So the laws were relaxed — a bit.

The main obstacles to migrating to the United States in the first 100 years of America's independence related to transportation and information costs. Ocean transportation was costly and even a bit dangerous. For example, during the early 19th century, say around 1840, the cost of passage from Liverpool to New York was two to three pounds sterling, perhaps \$12 in American money.¹⁰⁶ That was not an inconsequential amount at a time when annual per capita income was perhaps 20 pounds. So, for many, passage was perhaps 1.5 months income, the equivalent, relative to income, of an transatlantic air fare for an American today of \$6,000 to \$8,000. For a family of six, for instance, the cost was extremely high. Furthermore, new immigrants to the U.S. were not familiar with labor markets and economic opportunities in the new nation since correspondence with Europe was slow and costly.

¹⁰⁶ These numbers were provided by the Public Records Office of Northern Ireland. See http://www.proni.gov.uk/index/exhibitions_talks_and_events/19th_century_emigration_to_the_north_america_online/helping_hands, accessed on September 25, 2012.

Legal obstacles to movement, however, were essentially non-existent at the federal level. Some states passed anti-immigrant laws, and there were efforts made (the Know Nothing movement of the 1850s being the most notable example) to stifle immigration and restrict citizenship at the federal level, but nothing much really happened.

Yet early in the second century of America's existence as an independent nation, immigration restriction began, relatively inconsequentially at first, but becoming ever more draconian and effective with the passage of time. There are six major legislative actions in the second century of the nation's existence (1876 to 1976):

- In 1882, the Chinese Exclusion Act was passed, a shamefully racist piece of legislation that essentially ended Chinese immigration for decades;
- In 1907, legislation was enacted increasing a modest entrance fee for immigrants and tightening restrictions on the admission of undesirables, such as those with criminal backgrounds;
- In 1917, over the veto of President Woodrow Wilson, Congress passed a literacy test, imposing a reading requirement as a condition for admission;
- In 1921, the first generalized immigration quota was passed, putting a numerical limit on immigration, with the limits to apply to various nationality groups;
- The Immigration Act of 1924 dramatically tightened quotas, greatly restricted migration from certain countries even more, and closed the doors on most immigration to the United States for decades;
- The amendments to the Immigration Act in 1965 had the effect of loosening restrictions somewhat, opening the door for immigration from previously modestly represented areas in Asia, Latin America, and Africa, and tying visa issuance more toward family ties to previous immigrants living in the U.S.

The Chinese Exclusion Act and Other 1882 Legislation

While in terms of quantitative significance the Chinese Exclusion Act may have not been very large (although in the absence of such legislation perhaps large-scale Chinese emigration to America would have begun in the late 19th or early 20th centuries), no legislation was more racist or embarrassing to America over the long run. Indeed, in June 2012, the U.S. House of Representatives, for one of the few times in American history, formally expressed regret and in effect apologized for this legislation approved 130 years earlier by the very same legislative body.

The legislation was a consequence of a relatively large immigration of Chinese into the U.S. beginning with the California Gold Rush of 1848. After the Gold Rush wound down in the mid-1850s, Chinese increasingly found jobs working in service industries (e.g., restaurants and laundries) or large construction projects, most notably the Transcontinental Railroad, completed in 1869. In the mid 1870s, the economy was depressed (because of the Panic of 1873), and Chinese immigrants were accused of

lowering wages and taking jobs from native-born Americans. That, added to racial prejudice, led to immigrant exclusion.

The law was truly draconian. Chinese employed in mining were totally excluded for a decade. Others had to receive certification from the Chinese government that was burdensome to obtain, and all Chinese were excluded from receiving citizenship. Moreover, later legislation added to the indignities hoisted on the existing Chinese origin population, for example a 1902 provision required Chinese residents to register and obtain a residence certificate. It wasn't until 1943 that the Chinese Exclusion Act was repealed, but even that legislation limited Chinese immigration to slightly over 100 per year.

The year 1882 was notable in another way. A separate Immigration Act of 1882 imposed a 50-cent head tax on immigrants. While 50 cents was not a large sum, even then, it began a precedent of imposing barriers on immigration. Also that legislation began a trend to ever more restrictive rules against certain types of undesirable immigrants, in this case "lunatics."

1907 Legislation and Agreements

One action taken in 1907 was not formally legislative, but nonetheless impacted immigration, and it, again, regrettably had a strong racist dimension. The U.S. reached an agreement with the Empire of Japan to severely limit the number of incoming Japanese immigrants. It was informally agreed that the Japanese government would not issue passports to Japanese workers wanting to come to the U.S., but would give passports to wives and children of immigrants already in America. In return, California laws forcing Japanese to study in special segregated schools would end. Thus the anti-Asian, racist nature of immigration restriction initiated a generation earlier was not only continuing, but being expanded (the agreement ended with the 1924 immigration law that virtually eliminated Japanese immigration to the U.S.).

More formally, legislation was passed in 1907 that did impose additional restrictions on immigration. The most notable of these was a huge expansion in the head tax to five dollars, at a time when many immigrants to the country entered with barely that amount in their pocket (see chapter one for details). Although measuring price changes over time is a somewhat daunting exercise, the consumer price index has increased about 25 fold since 1907, meaning in today's dollars the tax was increased to \$125, a considerable sum to a very poor person. For a family of four, the tax in 2012 dollars was about \$500, a huge sum. Moreover, advocates of the legislation tried to require that male immigrants enter with at least \$25 in cash, a very serious barrier to most Eastern European groups who, on average brought in less than that amount. This provision, however, was removed before passage.

The 1917 Immigration Legislation

The precursor of the major immigration restriction of the 1920s that has shaped policy ever since came early in 1917. The world was at war and the U.S. appeared to be edging near entering it, the first large war the nation had fought outside its own borders. Americans, historically basically suspicious of foreign entanglements, feared having to devote resources and shedding blood over events taking place thousands of miles away, a war that President Woodrow Wilson had promised during the 1916 presidential campaign he would keep us from entering. All that increased anti-immigrant settlement,

although, ironically, the dangers of trans-Atlantic crossing and economic disruption in Europe already had slowed immigration to a trickle.

The literacy test idea was not new, and previous literacy test immigration bills had passed Congress under both Democratic and Republican presidents (Grover Cleveland and William Howard Taft), only to be successfully vetoed. But Wilson could not overcome fierce anti-immigrant sentiment. Yet the provision to require those 16 or over to read was not the most controversial provisions of the law. Indeed, that provision could at least be economically justified as a means of raising the average productivity of newcomers. However, the legislation also created an “Asiatic Barred Zone” that extended near elimination of immigration over all of Asia, and threw in exclusion of vast new categories of “undesirables,” including homosexuals, professional beggars, alcoholics, and “idiots.”

The 1921 Immigration Legislation

In 1921 the Johnson Act was passed creating for the first time strict immigration quotas by national origin. The law, which passed almost without opposition (one voted against it in the Senate), limited annual immigration to three percent of the population from the country in the 1910 Census. The impact was to dramatically lower immigration in general. While the exact impact of the legislation is obscured somewhat by the after-effects of the severe 1921 economic downturn, average immigration in the 1922 through 1924 fiscal years averaged a bit over 500,000, down dramatically from the 800,000 to 1,200,000 expected in a typical peacetime prosperous year. The decline was particularly pronounced among southern and eastern European immigrants. The number entering from Italy, for example, averaged under 48,000 a year in fiscal years 1922 through 1924, compared with numbers exceeding 100,000 a year in every year in the first 15 years of the 20th century, with a typical year exceeding 175,000.

Why, considering that never in American history had the nation adopted severely restricted immigration quotas, was such legislation approved without any a recorded vote in the House of Representatives? Part of the answer was timing. The 1921 legislation was enacted during a special session of Congress (called for the purpose of passing it by President Warren G. Harding) amidst the worst downturn in a generation. Industrial production had plunged over 30 percent in just a year and the unemployment rate went into the double digits.¹⁰⁷ Historically, attitudes towards immigrants turn increasingly hostile during downturns, as people believe that the foreign born are costing jobs for native born Americans. Additionally, American attitudes towards Europe and the rest of the world were somewhat bitter. America had devoted huge resources to fighting in a European war. The isolationist attitude of Americans led to us turning down membership in Woodrow Wilson’s dream, the League of Nations. The Russian Revolution contributed to a growth in a “red scare.” The nation’s mood was for reducing contact with the rest of world, and immigration restriction was one way to achieve it.

The 1924 Immigration Act

The most important and restrictive piece of immigration legislation ever passed was the Immigration Act

¹⁰⁷ Industrial production fell 30.4 percent from the first quarter of 1920 to the second quarter of 1921, when the immigration legislation passed, and factory employment fell nearly 29 percent. See Richard K. Vedder and Lowell E. Gallaway, *Out of Work: Unemployment and Government in Twentieth-Century America*, Revised Edition (New York: New York University Press, 1997), p. 63 for data on economic conditions at the time of the act’s passage.

of 1924. For three years, it reduced the inflows of immigrants to 2 percent of the 1890 population, implicitly, considering population increases over time, more than a 50 percent reduction from the 3 percent of the 1910 rule prevailing in the 1921 legislation. But the racial and ethnic mix shifts were even more dramatic. For example, under the 1924 law, Germany had a quota of 51,227, 13 times larger than Italy's 3,845 and over 22 times as large as Russia's 2,248. In the first fiscal year, 1925, immigration fell about 60 percent from the previous year, but that from Italy declined 89 percent.

The legislation, which passed handily, was overtly racist. Senator Ellison DuRant Smith of South Carolina, supporting the bill in the Senate (where only six voted against it), declared:

"I think that we have sufficient stock in America now for us to shut the door, Americanize what we have.... Thank God we have in America perhaps the largest percentage of any country in the world of the pure, unadulterated Anglo-Saxon stock... We want men not like dumb, driven cattle from those nations where the progressive thought of the times has scarcely made a beginning...."¹⁰⁸

The racist nature of the legislation was furthered by the essential elimination of Asian migration, although many writers believe that strong anti-Jewish sentiment played a major role in the restrictions, since most of the considerable Jewish immigration to the United States came from Eastern Europe, especially Russia.

Most people consider the 1920s as an era of unbridled laissez-faire, where government restrictions were few. During the decade maximum income tax rates fell dramatically, government spending as a percent of national output fell, labor union membership languished, and business was celebrated as contributing importantly to America's huge prosperity. Yet in the midst of this, two conservative American Republican presidents, Warren G. Harding and Calvin Coolidge, signed highly restrictive legislation that interfered with the right of persons to move internationally. It probably is not coincidental that this was also an era of high tariffs — restrictions on the movement of goods and services in keeping with the isolationist mood of the times.

The 1924 legislation lasted unchanged for a relatively long time by Washington standards, and, indeed, the key component of imposing quotas on overall immigrant flows remains part of current law. In that sense, we today live under the 1924 legislation as amended. There was one moderately important change to the law in 1952, usually called the McCarran-Walter Act, named after its two congressional Democratic cosponsors. The law was enacted in the midst of the Cold War, at a time of heightened American concern about Communist subversion. While the act had one feature later observers consider positive, namely eliminating the overly racist restrictions (but not the ethnic/racial origin provisions) imposed in earlier legislation, it permitted immigrant officials to not admit persons who were members or "fellow travelers" of the Communist party and related organizations. Many well-known intellectuals were excluded under the law (repealed in 1990), including the French philosopher Michel Foucault and the authors Graham Greene and Doris Lessing. President Harry Truman blasted the legislation: "we are 'protecting' ourselves as we were in 1924, against being flooded by immigrants from Eastern Europe....

¹⁰⁸ Ellison DuRant Smith, *Congressional Record*, 68th Congress, first session, April 9, 1924 (Washington, D.C.: Government Printing Office, 1924), vol. 65, pp.5961-62. Accessed on August 27, 2012 at <http://historymatters.gmu.edu/d/5080>.

We do not need to be protected against immigrants from these countries—on the contrary, we want to stretch out a helping hand....”¹⁰⁹ Nonetheless, Congress fairly easily overrode his veto of the legislation (278-113 in the House, 57-26 in the Senate).

The Immigration and Nationality Act of 1965

The mid-1960s were the civil rights era, and the 1924 immigration law that favored northern and western European immigrants over those from southern or eastern Europe, not to mention Latin America or Asia, was something of an embarrassment. The 89th Congress (1965-66) was the most activist in terms of liberal, welfare-state legislation since the New Deal of the 1930s, enacting Medicare and Medicaid, a War on Poverty, and major civil rights legislation, among other things.

Two Democrats, Emanuel Celler of Brooklyn in the House, and Philip Hart in the Senate, pushed the legislation, along with then junior senator Edward Kennedy. Celler, as a young congressman, had fought the 1920s immigration restriction, and viewed the end of the hated national origins system as a lifetime goal. Although all of these politicians were Democrats, the legislation was not opposed on partisan lines. Indeed, this is one of the interesting things about immigration policy — there are not clear “right” and “left” wing, Republican or Democrat, positions on the issue. Even today, conservative/libertarian Republicans sometimes support immigration on economic philosophical or pragmatic growth grounds, but sometimes oppose it on law and order, national security, or cultural grounds. Similarly, liberal Democrats often support legislation on humanitarian/idealistic grounds, but others oppose it, because, wrongly I think, they believe it will depress wages or harm domestic workers. Over time, labor unions have often been skeptical or hostile to more open immigration policies, but that view has changed somewhat as well in recent times. In the case of the 1965 law, it received overwhelming support in both parties, actually somewhat greater among Republicans (24 of 27 in the Senate, for example) than Democrats (many southern Democrats opposed the bill).

The legislation ended the national-origins system, but did not remove strict numerical limits on immigration, so the “progressive” or “reformist” nature of the 1965 bill can be easily exaggerated. The numerical limit was still a very low 170,000 a year, but a number of exceptions were allowed, exceptions that ballooned into large numbers. My guess is that if the 1965 Congress knew that legal immigration flows would ultimately at least double under the legislation, passage may not have come. For example, a “special immigrant” provision allowed immigration from independent Western Hemisphere nations outside the quota (to a limit of 120,000), a move that led to an extraordinary increase in Latin American immigration, both legal and unauthorized. Many politicians and leaders, such as Secretary of State Dean Rusk, predicted only modest demographic changes under the law. The removal of anti-Asian provisions in the old law was thought to likely have only modest effects. Emigration from authoritarian anti-market Communist China under Chairman Mao Zedong was nearly non-existent, for example, and commentators predicted at best only a few thousand Indians would migrate annually.

The increase in the foreign-born proportion of the population from 4.7 percent in 1970 to over 13 percent today is in part attributable to the 1965 law, but only in part. Illegal migration to the country, previously a relatively minor issue, probably can explain around 40 percent of the increased immigrant share of the

¹⁰⁹ Truman’s veto of the bill was to no avail; he was easily overridden, although a good number of congressmen, including over a dozen Senators, ducked the issue by not voting at all.

population — so it was not the new law, but the *evasion* of it, that contributed to much of the upsurge.¹¹⁰ Still, it is undeniable that the new legislation on balance enhanced immigration, and began the withdrawal, albeit to a modest degree, from the severe restrictions of the 1920s legislation.

The biggest impact of the legislation was on the ethnic/racial composition of the immigrant population. In the early 1960s, in the years before the new legislation, immigration to the U.S. averaged a bit under 300,000 a year, with well over 100,000 of them coming from Europe. Already a larger number came from the Western Hemisphere, but about one-third of that group came from Canada, some of them no doubt Europeans making a multi-country emigration journey. Only about 20,000 immigrants annually came to the U.S. from Asia.

Within five years of the act's passage, the total number of immigrants had already expanded by about 25 percent, exclusively among non-Europeans — the number of Indian migrants, for example, expanded 17-fold from under 500 to well over 8,000 during the period 1965 to 1970, only to rise further in coming decades. The number of immigrants from Caribbean lands expanded by 25,000 (nearly doubling), accounting for one-third of the total increase.

Table 6-1 looks at the composition by national origins of new immigrants with permanent resident (Green Card) status in the 1960s, compared with those in 2010. For purposes of this table, we combined Canadian immigrants with Europeans, reflecting the predominantly European origin of Canadians and the fact that some Canadian immigration came from Europeans who first migrated to Canada. Surprisingly, perhaps, the proportion of those from the Americas changes relatively little — Mexico, Central America, the Caribbean, and South America. The three big changes are: most importantly, the dramatic increase in the proportion of Asian immigrants, the smaller but still meaningful increased emigration of Africans, and, of course, a corresponding sharp decrease of those of European descent. Because of disproportionate numbers of unauthorized immigrants from Mexico and other American countries, the relative stability of proportions from those areas is probably overstated — those proportions in fact rose some, but the recent decline in the relative importance of that immigration is worth noting. The absolute numbers of those receiving legal status has more than tripled (to more than one million a year), which I regard as major progress given the immigrant-growth evidence of chapters three and four.

¹¹⁰ The foreign-born share of the population has risen about 8.5 percentage points from 1970 to 2012. The unauthorized foreign-born population is usually estimated at 10 to 12 million, or roughly 3.5 percent of the population, about 40 percent of 8.5 percentage points.

Table 6-1

National Origins of New Permanent Residents of the U.S., 1960s and 2010

<u>Place of Origin</u>	<u>% of Total, 1960s</u>	<u>% of Total, 2010</u>
Europe and Canada	48.75%	11.02%
Asia	11.16	39.34
Mexico	13.75	13.30
Caribbean	13.29	13.37
Central, South America	10.69	12.41
Africa	0.74	9.42
Other	1.62	1.14

Source: U.S. Department of Homeland Security, *2010 Yearbook of Immigration Statistics*, pp. 9-12, author's calculations.

Post-1965 Legislation

The 1965 immigration law governs U.S. policies today, but there have been a couple of moderately notable pieces of legislation enacted since then. In 1986, Democratic Congressman Romano Mazzoli of Kentucky teamed with Republican Senator Alan Simpson of Wyoming to successfully promote new legislation. Their efforts were partly prompted by a Commission on Immigration Reform, chaired by Rev. Theodore Hesburgh, the long-time president of the University of Notre Dame. It should be noted that immigration commissions called together at various times throughout history, beginning with the Dillingham Commission of 1909, mostly had limited real effect on policy. (I presented in the mid 1990s a variant of the recommendations discussed in chapter eight to one such commission chaired by former Congresswoman Barbara Jordan, to a generally hostile reception.)

The Simpson-Mazzoli bill was designed to deal with an issue heretofore a minor one — illegal immigration. It was a good cop-bad cop type of law. On the one hand, it provided for amnesty to illegal immigrants who had been in the country since January 1, 1982 (about five years) or longer, and to some seasonal agricultural workers. Literally millions took advantage of the legislation to acquire legal status over the years. On the other hand, it made it illegal to knowingly hire illegal immigrants, and required employers to attest to the immigration status of their employees.

The tensions over legalizing violations of the law made passage of Simpson-Mazzoli a very rocky proposition. Early efforts to pass the legislation failed because of opposition from both civil-rights groups and business groups such as the U.S. Chamber of Commerce. Tinkering with the bill, including softening sanctions against employers who hired unauthorized immigrants, ultimately led to passage of the bill, despite continued opposition (the bill passed the House by a vote of 238 to 173).

A second act dealing with illegal immigration (Illegal Immigration Reform and Immigrant Responsibility Act of 1996), or IIRIRA, strengthened the penalties for illegal entry. It also made it easier to deport illegal migrants. However, a growing problem was the difficulty of deporting immigrants when no country would accept the deportee. The indefinite holding of such immigrants was ruled unconstitutional in 2001 by the Supreme Court (*Zadvydas v. Davis*), which circumscribed considerably the ability of the

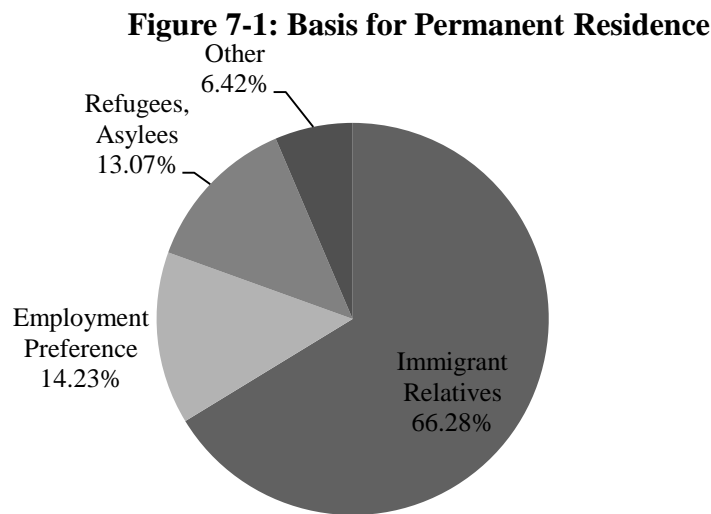
Immigration authorities to retain deportees in jail for a long period of time.. The September 11, 2001, terrorist attack, however, led to more vigorous use of IIRIRA as an anti-terrorist measure.

Despite continued legislative interest about immigration, there has been growing dissatisfaction on the part of persons on all sides of the debate about the effectiveness of current law.

Chapter Seven

Today's Immigrant: Legal Issues and Social Attitudes

Most recent immigrants to the United States are relatives of other immigrants (see Figure 7-1).¹¹¹ Looking at those granted permanent resident status in 2010 (some of whom came that year, but most who came somewhat earlier), there are about twice as many immigrant relatives admitted as all other categories combined. Note that those admitted on employment-based preferences constituted barely 14 percent of the total in 2010, not many more than those admitted on the basis of being a refugee or being granted legal status as a result of asylum. A small number (up to 55,000 a year) are admitted by lottery, but open only to immigrants from nations with relatively few admits otherwise — the so-called Diversity or Green Card Lottery created by the Immigration Act of 1990. That program, incidentally, has been accused of heavy use of fraudulent lottery entries, particularly from a few countries.



The family preference system allows immigrants to bring large numbers of relatives into the country over time — spouses, children, and brothers and sisters. A large proportion of this population does not work, at least initially, upon entry into the U.S. Since there are some countries with high fertility rates, the number of family preference immigrants is especially high among them. In 2010, the ratio of immigrant-relative permanent residents approved to the number approved on the basis of employment preferences was over *134 to 1* for the Dominican Republic; by contrast, it was less than *one to one* for South Korea (a majority of new permanent residents from South Korea received that status from employment-based preferences). While over 40 percent of new permanent residents from Korea, India, Canada, and the United Kingdom were employment-based preferences, less than one percent of those from the Dominican Republic, Haiti, or Iraq were. Ironically, based on national-origin data on immigrant earnings and educational levels, it appears to be the relatively less-skilled, lower-income immigrants

¹¹¹ Department of Homeland Security, Office of Immigration Statistics, *2010 Yearbook of Immigration Statistics*, accessible at http://www.dhs.gov/bdibrary/assets/statistics/yearbook/2010/ois_yb_2010.pdf, accessed on September 10, 2012.

who are bringing in the most relatives to this country, not the relatively more affluent highly-skilled immigrants who can better afford to help relatives enter.

Moreover, less than half of the new permanent residents worked. The employment- population ratio for this population, at less than 50 percent, was well below that for the entire American population (over 60 percent), because of large numbers of “homemakers” and “students and children.” While as a group immigrants work more than native-born Americans, the family-preference system dilutes the employment propensities of the foreign-born. A mildly disproportionate number of the new permanent residents (about 55 percent) were female, probably reflecting the fact that some male immigrants later bring in their spouse and children.

Legal Complexities

The person contemplating moving to America faces a grueling set of decisions and often frustrations. The immigration law is so complex that one has to “strategize” as to how to maximize the probability of admission. Can I go to the U.S. as a student and get a leg up on obtaining immigrant status after finishing schooling? Can I try to obtain refugee status? A few persons might ask, “Can I get someone to lend me \$500,000 so I can buy my way in?” Do I need an immigrant lawyer? If so, who is a good one? Do I wait in line for admission under a family preference provision, or do I try to get an employer to bring me in under an H1-B visa? Do I try to get in under the Diversity Visa Lottery? Even the government has to decide which countries qualify for inclusion in the diversity lottery. When does a nation have “enough” immigrants to disqualify itself? For some individuals contemplating moving, the cost of figuring answers to all the questions is too high, and they either forego the process — giving up on America — or attempt to enter the country illegally.

The costs associated with administering this complex system of laws are immense. For example, over 11,000 attorneys belong to the American Immigration Lawyer’s Association (AILA). The average earnings of attorneys in the metropolitan areas where almost all immigration lawyers reside is typically over \$100,000 a year. Assuming immigration lawyers roughly earn the average of all attorneys, well over one billion dollars is spent annually on immigration lawyer fees alone. But these lawyers have secretaries, legal assistants, researchers, and also there are many practicing immigration law that do not belong to the AILA. Adding all of that in, it is hard to believe the legal costs are less than two billion dollars a year, and maybe a good bit more. Since roughly 1,000,000 immigrants come to America annually, the legal costs per immigrant are at least \$2,000, and that excludes costs to the government of administering the system.

And those governmental costs are huge. In fiscal year 2011, U.S. Citizenship and Immigration Services (USCIS) spent over \$3 billion, roughly \$3,000 per new immigrant. Adding that to the private costs of complying with the laws, per immigrant administrative costs are at least \$5,000. This pales in insignificance with the amounts spent on border protection and immigrant enforcement. In his 2012 budget President Obama proposed \$2 billion for detention (“custody operations”), and over \$500 million more for border fencing and related costs. The whole Immigration and Customs Enforcement (ICE) budget proposed was \$5.8 billion. Thus the per new immigrant costs of complying and enforcing immigration laws, both to that individual and U.S. taxpayer, probably well exceeds \$10,000.

In assessing the cost of the current system, consider also the vast opportunity costs associated with not permitting larger numbers of highly skilled persons the chance to work. For example, putting aside the issue of the overall magnitude of immigration limits, what if we had another 100,000 skilled workers admitted and 100,000 fewer family-related non-working immigrants annually? The total number of immigrants is unchanged. Yet the nation's output would undoubtedly rise materially, tax revenues of the federal government would grow by at least a billion dollars under conservative assumptions, and pressures on social services would decline. Why don't we do it?

Then there are costs associated with waiting. Even for those ultimately successful in entering the country, many spend months and even years waiting for approval, working in temporary or low paying job in the country of origin rather than in better paying positions in the U.S. Current laws lower the work life expectancy of those ultimately admitted, reducing the human capital gains to the United States.

Recent Immigration Policy Initiatives

While the laws governing immigration have not changed much over the past 25 years, that has not been because of a lack of effort. Rather than recite a litany of failed legislative initiatives, I will concentrate on the most important one, the 2005-2007 effort on the part of several senators and congressmen to enact reform. The most interesting thing about both the proponents and opponents of the legislation was their ideological diversity. The two names most identified with the legislation included a relatively conservative Republican, John McCain, as well as an iconic liberal Democrat, Edward Kennedy. But other conservatives (e.g., John Kyl and John Cornyn) and liberals (e.g., Harry Reid and Dianne Feinstein) also supported the legislation. President George W. Bush vigorously supported the bill. While many conservative Republicans (e.g., Jim DeMint, David Vitter) opposed the bill, they had unlikely allies in labor unions and even some employer groups.

The bill tried to find a compromise between law-and-order concerns and supporters of greater immigration or economic realists. These economic realists argued that, practically speaking, the nation has absorbed at least 12 million unauthorized immigrants who actually are now an important part of America's stock of human resources, and it is best to bring them fully into society by providing a path to citizenship. For the hard-liners, the legislation promised tougher border enforcement, including more policing of the Mexican border and other enhanced security measures, as well as requiring illegal immigrants who wanted a path to citizenship to admit their guilt, pay a fine and some taxes, and temporarily return home. For the pro-amnesty types, the legislation created a Z visa that would confer legality on the residency of the illegal migrants, and provided a path to a Green Card and ultimate citizenship.

But more important, perhaps, is that the 2007 bill would have ended the family reunification emphasis in current immigration law, allowing only the spouse and children, not other relatives, special treatment with respect to possible permanent residency. And it would have moved to a Canadian-style point system, where immigrants received points for having certain attributes, such as a college degree or high levels of English proficiency. Those with the most points would be admitted. Thus the nation would move to a more skills-oriented immigration policy. Also, there was some liberalization of "guest worker" provisions for temporary employment of foreign-born nationals.

The obstacle that prevented the bill's passage was the Senate filibuster, a device allowing a large minority of Senators to seriously delay a vote on passage, endangering the consideration of other legislation. It is ironic that in an era of high partisanship, a genuinely bipartisan piece of legislation supported both by the liberal Democratic Senate majority leader and the relatively conservative Republican president could not make it through even one chamber of Congress.

The illegal immigration issue has been addressed by other actions at both the federal and state levels. The most long-lived is the so-called DREAM Act (Development, Relief, and Education for Alien Minors) originally introduced in both houses of Congress in 2001, in the Senate by Democrat Dick Durbin and Republican Orrin Hatch. The legislation provided a means allowing young illegal immigrants who met certain schooling or military requirements to ultimately earn a path to citizenship. The bill was reintroduced several times, to no success. Some states (notably California) introduced DREAM Acts of their own relating to education benefits, but these are very limited pieces of legislation that offer no path to citizenship. Similarly, states have debated the appropriateness of allowing long-time unauthorized immigrants to pay in-state tuition charges at state universities.

In July, 2012, President Barack Obama issued an executive order under which the Department of Homeland Security would stop attempting to deport illegal immigrants arriving in the U.S. before the age of 16, who have lived here at least five years, are presently in school, are high-school graduates, or are military veterans.¹¹² They must have no criminal records and be young (under 30). Perhaps 1.4 million illegal immigrants, maybe 12-14 percent of the total, are impacted by the order. Congressional Republicans were furious about the order, in part because some objected to the provisions, but mainly because of legitimate issues about the legality of the action: "The president's action is an affront to the process of representative government by circumventing Congress," Sen. Charles Grassley opined.¹¹³

A good deal of emotion and legal activity has surrounded legislative action in one state, namely Arizona, where Governor Jan Brewer in 2010 signed Senate Bill 1070, which imposed considerable state legal sanctions against illegal immigration. The law, while largely supported by the general public, was bitterly opposed by others. In June 2012, the U.S. Supreme Court, in a 5-3 vote, struck down a majority of the law on the grounds that Arizona exceeded its authority in an area constitutionally reserved to the federal government, but did permit the provision allowing police to check immigration status when, for example, motorists are stopped. If there is a reasonable suspicion that an illegal immigrant might be in a car, for example, Arizona police can stop and evaluate immigrant status.

How Do Americans Feel About Immigration?

This book has argued that immigration is a force for good in America, making the U.S. a better, special place. Yet the evidence from the recent past is that comprehensive immigration reform simply does not happen in America. We have not had a major change in immigration laws in 47 years, and the modest changes made largely are designed to promote enforcement of existing provisions by cracking down on illegal immigration.

¹¹² I believe the provision allowing military service as a path to getting quasi-legal status is mostly added to gain political support, since the U.S. Armed Forces will not generally admit persons who do not have legal residency.

¹¹³ "Obama to Permit Young Migrants to Remain in U.S.," *New York Times*, June 15, 2012, accessible at <http://www.nytimes.com/2012/06/16/us/us-to-stop-deporting-some-illegal-immigrants.html?pagewanted=all>, accessed on September 15, 2012.

Why is this so? If immigration has on balance such positive effects, why don't we have more of it? The answer relates, I think ultimately to public attitudes. This topic is an example of what economists call "asymmetrical information." People disproportionately learn about the negative byproducts of migration to the United States, some of which are highly visible, such as when immigrant inflows lower wages and job opportunities for native-born unskilled labor. But they often do not sense the positive dimensions, many of which are relatively hidden, such as a rise in patent and entrepreneurial activity. This problem posed by asymmetrical information shows up in public-opinion polls.

In a 2006 Pew Research Center study, Americans were pretty evenly divided on the merits of immigration.¹¹⁴ Those polled were asked to pick one of the following: "The growing number of newcomers from other countries threatens traditional American customs and values," or "The growing number of newcomers from other countries strengthens American society." The results suggest that 48 percent supported the anti-immigrant position, 45 percent the pro-immigrant position, and 7 percent were undecided or did not answer. The anti-immigrant position was a good deal stronger among evangelical Protestants, while non-religious individuals tended to be more pro-immigrant.

On a more purely economics related question, the anti-immigrant sentiment dominated a bit more, although opinion was still fairly evenly divided. Respondents were asked to pick one: "immigrants today are a burden because they take our jobs, housing and health care," or "immigrants today strengthen our country with their hard work and talents." 52 percent favored the first position, 41 percent the second. Even among secular persons, the anti-immigrant position was at least modestly favored. Ironically, although non-religious people tend to be more pro-immigrant, among those with church affiliations, those attending church relatively often are more pro-immigrant than those attending less frequently. For example, only 33 percent of white mainline Protestants attending church at least once a week believed that legal immigration should be *decreased*, compared with 45 percent on those attending less frequently.

During the 2008 election and shortly after, Pew polled folks on immigration finding that it was a secondary, mid-tier issue. Even among Hispanics, there were five other topics which more believed were "extremely important."¹¹⁵ It was a more important issue for those voting for John McCain than those supporting Barack Obama, but even among McCain voters, it was not a top-five issue.

Sometimes a lack of specific knowledge about legislative proposals influences results. Pew found, for example, that most (63 percent) supported a core principle of the abortive 2007 immigration reform effort, providing a "path to citizenship" for undocumented immigrants, even though when asked, a plurality (41 to 33 percent) opposed the bill that was under consideration in the Senate.

My sense after looking at lots of polling data is that Americans in principle accept the concept of legal immigration, and maybe even feel on net positively about the highly skilled and educated newcomers, a large portion of which come from Asia. But they feel much more negatively about illegal immigration,

¹¹⁴ Gregory A. Smith, *Attitudes Toward Immigration: In the Pulpit and the Pew*, Pew Research Center, April 26, 2006, available at <http://www.pewresearch.org/pubs/20/attitudes-toward-immigration-in-the-pew>, accessed on September 7, 2012.

¹¹⁵ Scott Keeler, *Where the Public Stands on Immigration Reform*, Pew Research Center, November 23, 2009, available at <http://pewresearch.org/pubs/1421/where-the-public-stands-on-immigration-reform>, accessed on September 7, 2012.

excepting perhaps for young persons whose migration to the U.S. was directed by their parents and who have had a relatively exemplary life in this country. When asked in 2011 whether our priority regarding illegal immigration should be “better border security,” “creating a path to citizenship,” or “both,” 35 percent said better border security, 21 percent “creating a path to citizenship,” and 42 percent said “both,” meaning we should have tougher enforcement of the laws but also create an opportunity for unauthorized immigrants to ultimately achieve citizenship.¹¹⁶ Moreover, whites generally approve of the 2010 Arizona law requiring police to verify the legal status of those suspected of being illegal immigrants, while blacks and Hispanics are opposed. While the hostility towards illegal immigration is relatively intense, there are limits: Most Americans (57 percent) oppose amending the U.S. Constitution to eliminate the “birthright citizenship” provision that grants the children of illegal immigrants residing in the U.S. automatic citizenship.

Yet there seems to be some indication that public opinion favors highly-skilled-based immigration. For example, while Pew Research polls show Republicans generally are somewhat more hostile towards immigration than Democrats, even Republicans seem concerned that the strict limit on skilled-based visas is harmful to the nation. For example, in its 2012 party platform, Republicans proclaimed:

“Highly educated immigrants can assist in creating new services and products. In the same way, foreign students who graduate from an American university with an advanced degree in science, technology, engineering or math should be encouraged to remain here and contribute to economic prosperity and job creation.... As in past generations, we should encourage the world’s innovators and inventors to create our common future and their permanent homes here in the United States.”¹¹⁷

Moreover, the very latest data from the Gallup Poll indicates a recent shift towards more favorable immigrant attitudes. In a June 2012 poll, Gallup found that 66 percent of respondents answered positively the question “On the whole, do you think immigration is a good thing or a bad thing for this country today.”¹¹⁸ This is the highest favorable response in several years. In 11 polls since 2002, the range of those answering that question positively has varied from 52 to 67 percent. I think a factor in the shift towards favorable attitude may be the rise in the relative importance of Asian immigration compared to that from Mexico and other parts of Latin America. Asian immigrants tend to be legal, highly educated, well skilled, and earn good incomes, whereas Mexican newcomers often are illegal entrants to the U.S., relatively uneducated, less skilled, earn lower incomes, and are more likely to claim social services provided by American taxpayers. On average, the set of traits represented by Asian immigrants is more favorably regarded by Americans than is the set of traits represented by Mexican immigrants. This is consistent with the Republican endorsement of a more highly skilled, educated foreign born presence in the U.S., despite their general hostility towards illegal migration and anything resembling “amnesty” for those unauthorized immigrants.

¹¹⁶ Pew Research Center, *Public Favors Tougher Border Controls and Path to Citizenship*, February 24, 2011, accessible at <http://pew.research.org/pubs/1904/poll-illegal-immigration-border-security-path-to-citizenship-birthright-citizenship-Arizona-law>, accessed on September 7, 2012.

¹¹⁷ Paul Fain, “Taking on Higher Education,” accessible at <http://www.insidehighered.com/news/2012/08/29/gop-platform-harshly-critical-higher-education>, accessed September 7, 2012.

¹¹⁸ Jeffrey M. Jones, “Americans More Positive About Immigration,” *Gallup Politics*, June 16, 2012, accessible at <http://www.gallup.com/poll/155210/Americans-positive-immigration.aspx>, accessed on September 7, 2012.

Moreover, certain aspects of today's immigration laws may be more appealing than others, and expansion of concepts contained in those provisions might be politically feasible and economically desirable. For example, there is the so-called "millionaire's visa," a provision that allows a person willing to invest \$500,000 and create at least 10 jobs in a high unemployment area to obtain permanent residency in the United States. Is this good or bad? I surveyed 54 students in two classes at Ohio University to get their opinion. Some 72.2 percent thought it was a good idea. This is particularly encouraging to me, given my market-based suggestions for immigration reform which come in the next chapter.

Is Unauthorized Immigration Starting to Decline?

No significant immigration reform will come, if the 2005-7 reform debate is any indication, without dealing with the problem of illegal immigration. Feelings run high on this issue, as the polling data indicated. There is one considerable cause of optimism, however: there are some indications that the relative, and probably even the absolute, importance of this issue has peaked, and, at least in a relative sense, it is beginning to decline.

To begin with, there are four reasons to believe that new inflows of illegal immigrants — net of outflows back to the country of origin (usually Mexico) — are going to decline in future years. First, the "pull" of the U.S. has been reduced because of falling economic opportunity here and the perceived likelihood that this is not a short-term condition. Indeed, this is a growing concern to many Americans, and has led to efforts such as the Bush Institute's 4% Growth Project. The recent rate of U.S. economic growth has been the lowest of any 12-year period since the Great Depression. While much of the blame rests with the "jobless recovery" following the financial crisis of late 2008 that continues to the present, there may be a growing feeling that, like Europe several decades earlier, America is becoming a low growth/low opportunity welfare state, without the dynamism that provoked and sustained American economic exceptionalism.

Second, economic growth in recent years has been healthy in Mexico and some other Latin American countries, the dominant source of illegal immigrants. In seven of the nine years 2004-2012, Mexican economic growth exceeded three percent, and in a majority of the years was four percent or more.¹¹⁹ Reuters reports that one recent forecast (by economists at Nomura) predicts Mexican economic growth over the next decade will be somewhere between 4.25 and 4.75 percent a year — a high growth rate by any standard.¹²⁰

Third, economic growth will translate into living-standard improvements only if the growth rate of output exceeds that of population. In the 1980s, still relatively high birth rates contributed to a 2.2 percent annual population growth rate in Mexico, but that tumbled to 1.2 percent in the first decade of the twentieth century and is expected to decline slightly more in this decade — to perhaps 1 percent a year.¹²¹ If the Nomura output forecasts are even slightly overoptimistic, that translates into three percent annual output growth per capita in the next decade in Mexico. While that nation has some significant

¹¹⁹ See the 2012 *Economic Report of the President*, Table B-112, for details. Accessible at www.gpo.gov/fysys/pkg/ERP_2012/pdf/ERP-2012table112.pdf, accessed on September 14, 2012

¹²⁰ "Mexico Could Overtake Brazil as Latin America's Number One Economy in 10 Years," accessed at <http://www.reuters.com/article/2012/08/08/latam-economy-idUSL2EJBAGP20120808>, on September 14, 2012.

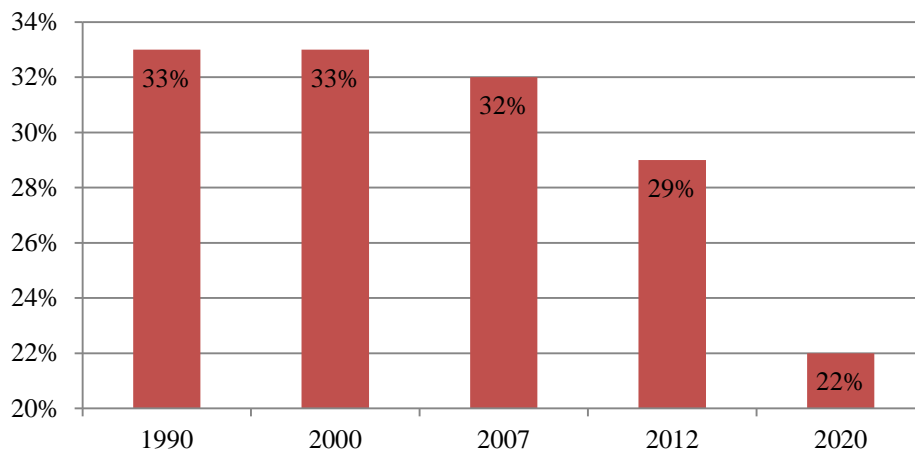
¹²¹ These and other statistics on Mexico and other nations of immigrant origin were obtained in www.census.gov/compendia/statab/cats/international_statistics.html, accessed September 14, 2012

issues relating to income distribution, and especially law and order, that make any future conjecture somewhat dicey, it presently seems there is a high probability of relatively high growth in living standards in the future.

Fourth, the trend in U.S. immigration law since 1986 has been to ever-more stringent enforcement. In my view, there has been a good deal of waste related to that effort. Inefficient as it has been, however, it has been massive (one estimate puts costs in 2012 dollars of the effort at \$219 billion, probably over \$20,000 for every individual successful in entering the U.S. illegally), and it has produced some results.¹²² The adverse consequences of hiring an illegal immigrant have increased for U.S. employers and immigrants alike, contributing to the decline in the desire to enter the U.S. in an unauthorized fashion.

I believe the undocumented immigration problem is already declining in some relative sense, although that belief is based on inherently unreliable data given the concealed nature of the migration. In Figure 7-2 I present my guess of the unauthorized immigrant share of the U.S. foreign-born population, 1990 to 2020. From 1990 to 2007, the absolute numbers of this population grew substantially, but a variety of factors, including some stated above, probably meant the *proportion* of illegals in the foreign-born population — which grew in the 1970s and 1980s substantially — was constant and maybe declining very slightly before 2007. After 2007, there is a widespread belief that the undocumented population has stagnated in an *absolute* sense, in large part because of the sluggish U.S. economy.¹²³ Since the legal foreign-born population continues to grow, the undocumented proportion of the U.S. immigrant population has begun to fall.

Figure 7-2: % Unauthorized Immigrations: Speculative Estimates



Source: Author's speculation based on news accounts of illegal immigrant flows.

My prediction for the future assumes a slight reduction in the number of unauthorized Mexican immigrants in the United States, along with continued robust legal immigration growth. If the Mexican

¹²² The \$219 billion estimate was cited by Ted Robbins in his September 13, 2012, National Public Radio report on American immigration.

¹²³ The Pew Research Center Issued a report on April 23, 2012, "New Migration from Mexico Falls to Zero and Perhaps Less," that makes this point. See <http://www.pewresearch.org/pubs/2250/mexican-immigration-immigrants-illegal-border-enforcement-deportations-migration-flows>, accessed on September 14, 2012.

economy grows even close to the Nomura predictions, rising living standards and growing employment opportunities in Mexico (where unemployment rates are already lower than in the U.S.) along with high immigration-enforcement in the U.S. could well lead to some reverse migration. My views regarding the peaking of the illegal Mexican population and the implicit relative decline in its future importance seem to be at least approximately held by one of the leading experts on Mexican immigration, Princeton professor Douglas S. Massey, co-director of the Mexican Migration Project.¹²⁴

If Massey and I are correct, this has positive implications for the development of a rational immigration policy that serves the multiple goals of maintaining America's longstanding role and commitment to serving as a haven for the poor and oppressed throughout the world, as well as that of improving America's recent sluggish economic performance, ultimately enhancing living standards for nearly one-third of a billion Americans and helping the nation maintain its role as the world's preeminent economic power. The illegal immigration stumbling block to reform may become smaller and ultimately conquerable politically, allowing for a growth-oriented immigration policy.

¹²⁴ This is based on the Ted Robbins NPR immigration story, September 13, 2012, previously cited.

Chapter Eight

Towards A New Immigration Policy for America

To this point, I have tried to show that immigration has been, on balance, good for America. Immigration is an integral part of the story of America, and its economic exceptionalism has been propelled in part by the vitality that new infusions of human capital bestowed on the young nation. Yet anti-immigrant sentiments have been part of the American political landscape almost since the beginning, and in modern times the magnitude of those sentiments became so powerful that restrictions were placed on movement to the United States, restrictions that after 1924 became particularly onerous. It is no accident that America's ascendancy to economic leadership in the world mostly came in a period before immigration restriction was an important feature of life in the United States.

Although restrictions imposed on immigrants are probably, on balance, somewhat less onerous today than it, say, half a century ago when John F. Kennedy was president, they still keep hundreds of thousands of migrants from entering the nation each year. Yet the battles over modernizing and liberalizing immigration laws over the past decade suggest that it is probably politically utopian to call for a virtual end to all immigration restrictions except as it pertains to persons who are potential threats to national security, public health or the rule of law. Needed is a policy that does at least eight things:

- Materially expands the flow of newcomers to American shores, providing the nation with the economic vitality that young, hard-working immigrants have historically provided;
- Improves the average economic productivity of new arrivals and reduces economic and cultural problems of slow assimilation into American culture present among some immigrant arrivals;
- Does not discriminate in favor of, or against, any person on the basis of nationality, race, gender, religion or any other group characteristic, with the single exception of exclusion of persons perceived dangerous on national security or public health and safety grounds;
- Imposes no fiscal burden, short-term, on the American taxpayer, and, indeed, potentially provides immediate help in dealing with the problems associated with large budget deficits, either by directly reducing deficits or offering taxpayer relief to native-born taxpayers;
- Deals with and redefines the problem of immigration enforcement (unauthorized immigration);
- Provides encouragement, not barriers, to foreign students to remain in America upon completion of their college degrees;
- Continues the American tradition of opening up itself to receive persons victims of political or religious persecution or extreme economic deprivation; and
- Lowers the bureaucratic, administrative and legal costs associated with enforcing the immigration laws.

A Market, Not Rules-Based, Approach to Immigration

What I propose is a modification of an idea that Lowell Gallaway and I first had a long time ago in a well read newspaper op-ed.¹²⁵ We were not unique in suggesting the idea: We were picking up on proposals

¹²⁵ See Lowell Gallaway and Richard Vedder, "Charging Our Way to Better Immigrants," *USA Today*, January 30, 1997, p. A13A, or Joshua C. Hall, Benjamin VanMetre and Richard Vedder, "U.S. Immigration Policy in the Twentieth-Century: A Market Based Approach," *Cato Journal* 32 (1), Winter 2012, 201-220.

of a trio of very distinguished economists, Julian Simon, Gary Becker, and Barry Chiswick, and have been followed more recently by Pia M. Orrenius and Madeline Zavodny.¹²⁶ Rather than have immigrants selected on the basis of some administratively determined rules and on a long waiting period, allow market forces primarily determine who can enter the United States. Immigration would not be determined on where you were from, how long have you been waiting to be admitted, who your family members living in the U.S. were, some bureaucrat's determination of your skill level, or other such criteria. There would be a price of admission, call it a visa fee, just as there are admission fees to join other associations of people, such as the American Association of Retired Persons (AARP), the Rotary Club, a homeowner's association, or a country club. The amount of the fee, however, rather than being administratively fixed, would vary with market conditions, similar to how the market for taxicab medallions (rights to drive a cab) varies in New York City.

The exact number of immigrants admitted is obviously something that can be altered upward or downward. The proposal below assumes a level of new immigrant inflows between four and five per 1,000 population annually, a considerably higher number than currently coming in (even including undocumented immigrants), but still less than one-half the inflows, relative to population, observed at the peaks in the 1850s and 1900s.

Sell 5,000 immigrant visas to the U.S. every business day, with the price determined by demand and supply conditions. The price on any given day will be that price that will lead to the sale of 5,000 visas. Assuming 250 or so business days a year, the implication is that 1,250,000 visas will be sold annually. A variant would be to alter the number of visas sold daily with labor market conditions. In times of low overall unemployment where labor shortages actually exist in some situations, the number of visas could be increased, and they could be reduced in recessionary periods where labor demand is smaller. For example, the number of visas sold could be reduced by 100 for each one tenth of a percentage point the unemployment rate exceeds seven percent, or increased by 100 for each one tenth of a percent it is reduced below six percent. Thus if the unemployment rate were 8.1 percent, the number of daily visas sold would be 3,900 (5,000 minus 1,100 arising from the 1.1 percent increase in the unemployment rate above seven percent); if the unemployment rate were 4.9 percent, the number of visas sold would be 6,100 (the 5,000 daily allocation plus 1,100 more for the 1.1 percentage points reduction in the unemployment rate below six percent). Implicit in this formula would be the temporary suspension of immigration completely if the unemployment rate were to go above 12 percent. The maximum immigration visa sales amount is probably around 8,000 daily, happening if unemployment rates fell to three percent.

How much money would be raised from visa sales? Since we have not had this market before, any estimate is just a guess. However, we do know that there are significant numbers of immigrants who spend \$15,000, \$20,000 or even more to try, with no certainty that they will succeed, to facilitate entry

¹²⁶ See Julian L. Simon, *The Economic Consequences of Immigration* (Oxford, U.K.: Basil Blackwell, 1989), especially pp. 328-335. Becker's views have changed a bit over time, but still involve selling visas. See "Gary Becker's Immigration Plan," April 12, 2011, at <http://modeledbehavior.com/2011/04/13/gary-beckers-immigration-plan/>. Barry Chiswick has advocated a variety of skills-based admissions schemes, including visa sales. See his "Toward a Positive Immigration Policy," *Regulation*, 12(3), 1988, accessible at <http://www.cato.org/pubs/regulation/regv12n1/reg12n1-chiswick.html>. The latest and most comprehensive word can be found in Pia M. Orrenius and Madeline Zavodny, *Besides the Golden Door: U.S. Immigration Reform in a New Era of Globalization* (Washington, D.C.: AEI Books, 2010).

into the United States. For example, there are reports that Latin American and Asian immigrants have paid sums this large to be smuggled into the U.S., and many others who quite legally spend nearly that much on immigration lawyers to try to expedite admission to the American nation under existing laws.

Suppose we sold 1,250,000 visas annually at an average fee of \$16,000 each. The U.S. Treasury would receive \$20 billion in new revenues. The use of those funds would be an issue for Congress and the President to decide, but several possibilities exist — reduce the annual budget deficit, dramatically increase funds for the enforcement of immigration laws, provide aid for government infrastructure improvements in areas heavily settled by new immigrants, etc.

An idea that I think would make expanded immigration more popular with the American people would be to dedicate visa revenues to reduction in individual income taxes. At this writing, individual income tax revenues are about \$1.1 trillion annually. If individual taxpayers were given \$20 billion in rebates proportionate to their income tax payments, their tax liability would fall by 1.82 percent. For a fairly typical taxpayer paying \$10,000 annually in taxes, the tax liability would be reduced by \$182 “from payment of immigrant visa fees.” Negative attitudes towards immigration might materially decrease if taxpayers perceived they were receiving some direct benefit from the new influx of foreign-born. My guess is the \$16,000 visa fee estimate above is conservative. The true figure might be double that — providing a sizable (\$40 billion) annual revenue to the Treasury, and potentially offering a fairly consequential tax reduction, something that unquestionably would increase economic growth.¹²⁷

In keeping with the eight principles of immigrant law reform discussed above, it would probably be desirable to have a small additional quota for refugees from political or religious persecution, or for people whose very human existence is threatened by being caught up in civil or international wars. The need for refugee visas varies a good deal with political and military conditions. Moreover, overly liberal use of refugee visas could undermine the paid visa admission program. Perhaps one idea would be to allow a five year moving average of refugee visas of 50,000 per year, with the President of the U.S. allowed to vary annual admissions from 0 to 100,000 within the parameters of the moving average maximum restriction. Obviously, that number could be increased or decreased as needed.

Finally, there are large numbers of foreign workers who enter the United States on a temporary basis to work, especially in agricultural employment. In the past, we have had (or proposed) various “guest worker” programs to accommodate these workers legally. There is no question that these workers provide real benefit, but they are likely to have difficulty entering the country legally under the visa program proposed above given the relatively low paid jobs they fill and the often temporary nature of employment. Therefore, some consideration might be given to a second visa auction, one limited to short-term work visas. Indeed, companies might buy at auction visas for a modest amount (say \$1000) to

¹²⁷ The literature on the tax/economic growth relationship is truly voluminous. One pioneering study is Richard Vedder, “State and Local Economic Development Strategy: A ‘Supply Side’ Perspective,” Joint Economic Committee of the U.S. Congress (Washington, D.C.: Government Printing Office, 1981). A representative academic study is Roger C. Kormendi and Philip G. Meguire, “Macroeconomic Determinants of Economic Growth: Cross-Country Evidence,” *Journal of Monetary Economics* 16, September 1985, pp. 141-63. A modern, less technical study is Arthur B. Laffer, Stephen Moore and Jonathan Williams, *Rich States, Poor States*, Fifth Edition (Washington, D.C.: American Legislative Exchange Council, 2011), accessible at <http://www.alec.org/publications/rich-states-poor-states/>, accessed on September 24, 2012.

overcome costs to the workers of obtaining legal entry (the employers, of course, likely would recover these payments via lower wage payments than otherwise).

Advantages of Market-Based Immigration Restriction

How would the proposed system be superior to the existing one? First of all, those admitted would almost certainly be individuals who on average have high levels of skills or productive potential. While there may be a few rich but lazy and unskilled immigrants who could buy their way into America, the ones likely to get high-paying skilled jobs in America are the ones most likely to benefit from the immigrant visas, and therefore the ones willing to pay more. An engineer from India with excellent prospects for a \$60,000 job but who is only making \$8,000 in India would probably gladly pay \$20,000 or even more for a visa, but the relatively illiterate agricultural worker who might move from a \$3,000 annual income to a \$15,000 yearly wage would find the potential income gain to be dramatically smaller, and thus would be far less likely to apply for a visa, and would in any case have more trouble financing the transaction. I would expect employers hungry for skilled workers would pay for many visas as part of a multi-year employment contract, easing the financial burden to the immigrant of the entry fee.

One of the arguments by critics of immigration like George Borjas has been that the modern-day immigrants are dramatically less skilled and educated than the American population, or than even earlier immigrants. While the data suggest this trend is already changing somewhat, it is true that a large number of newcomers to America have severe deficiencies that make it difficult for them to assimilate rapidly and move up the skill ladder to high paying jobs. The “pay to play” dimension of the proposed immigration policy would dramatically increase the mix towards those with higher skills, and increase the immigrant-induced accumulation of human capital and entrepreneurial drive from already fairly impressive levels. It would, in short, increase American economic growth, and eliminate some of the gap between America’s recent subpar economic performance and historical high growth norms.

Moreover, American companies could gain some certainty over maintaining a skilled labor force. By advancing funds to promising immigrants, they could overcome the latter’s financial problems of paying the fee, meanwhile getting quickly needed labor. So-called “STEM” (science, technology, engineering, and math) skill shortages could be dealt with more efficiently and quickly than under existing provisions such as the grossly inadequate and administratively cumbersome H-1B visa program.

One group that would be particularly aided by a reformed immigration law would be foreign students to the United States who, under current law, are often forced to return to their native lands upon graduation. In some cases, they are receiving higher education highly subsidized by Americans taxpayers, only to take their newly acquired human capital skills home — to compete with Americans. These foreign students have an American education, are familiar with the English language and American cultural traditions, and thus are likely to be highly viable candidates for jobs in the U.S. The prospects of such jobs would allow them to acquire American immigrant visas. My guess is that banks and other financial service industries would start offering loans that would facilitate visa purchase, particularly where the graduating foreign student has firm offers of a job. More often, though, I suspect employers would offer visa payment as a fringe benefit, just as they offer new employees help in paying tuition fees for graduate degrees.

The costs associated with migration to the U.S. today are vastly more than the transportation costs that historically were the largest barrier to international movement. As mentioned above, people spend thousands of dollars using immigration lawyers to negotiate the labyrinth of rules, laws, etc. associated with moving to the U.S. There are huge elements of uncertainty: will my visa application be approved? When? Often the “when” question involves years of waiting. American embassies spend inordinate resources dealing with issues raised by potential migrants. The system is often unfair, costly, time-consuming and always excessively bureaucratic. Most of that would be swept away under a market-based system. To be sure, some background checking of successful visa applicants would be necessary for national security reasons, but the administrative costs would be dramatically reduced for applicant and the U.S. government alike.

One particularly attractive feature of visas whose price varies regularly with demand and supply conditions is that their price would provide an extraordinarily interesting measure of the general attractiveness of the United States as a destination, and provide a “bottom line” on the perceived quality of life in America, and how it changes over time. We might hear news anchors intone, “The USA was up \$120 today on good economic news of sales in the retail sector,” for example. Or “The President’s record came under attack today by his opponent in the coming election, who noted the price of U.S. visas had fallen 22 percent during his presidency.”

It is interesting that American immigration law, to a very limited extent, recognizes that getting people with resources is particularly valuable. Hundreds of EB5 Visas — the so-called “millionaires visas” discussed earlier — are issued annually.¹²⁸ Interestingly, other countries (most recently Australia) are imitating the U.S. example.

The H-1B Visa is reserved for persons with talents and skills and is administered by U.S. Citizenship and Immigration Services (USCIS). In recent years, slightly over 100,000 of these visas have been issued annually, based on employer (not employee) application. The visas are not directly a path to citizenship. They are renewable for a finite time, and some H-1B Visa holders at some point must return home for at least one year. They are strictly limited in number. In most recent years, the visa quota for the year is used up very early. Inadequate as it is, the H-1B visa system is a small but still tangible acknowledgement that “skills matter,” and that immigration is a way of meeting critical labor needs.

Thus my suggesting financial and/or productivity criteria for admission is not new idea, and the idea of skills-based immigration admission is well established (if inadequately so) in the law. Nearly 100 years ago, the literacy test imposed by the 1917 immigration act was designed to attract immigrants who assimilate more readily and are likely to be more productive. On average, the literate persons admitted were probably financially better off than the illiterate individuals excluded from migrating. So the concept that financial resources can facilitate immigration to the U.S. is not a new one in this modern era of immigration restriction.

Criticisms of the Market-based Approach

Yet there will be many objections to a market-based approach. It will be argued that it discriminates

¹²⁸ Stephen Magagnini, “Immigrants’ EB5 or “Millionaire Visas” Fuel U.S. Job Growth,” March 21, 2011, downloaded from <http://www.scripps.com/content/immigrants-eb5-or-millionaire-visas-fuel-us-job-growth>, accessed August 22, 2012.

against deserving, but poor, immigrants. In one sense, that is true, in the sense that those with resources always have advantages in life over those without them. But only a limited number of immigrants are going to be admitted to our shores, given skepticism of Americans about unrestricted immigration, while some persons are going to be turned away. Why is using financial criteria more “unfair” or “discriminatory” than basing admission on other criteria, including, in some cases, where the immigrant is from? The current family-based system seems terribly “unfair” in one respect: people get into the United States based on their family connections, rather than on the basis of their merit as human beings. Basing things on merit rather than family connection is more in keeping with the American Dream.

Others might observe that since Latin American immigrants tend to be less educated and skilled, this proposal would reduce the proportion of immigrants coming from those areas. No doubt this is true, but that does necessarily mean a large reduction in the *number* of immigrants from those areas, since the fall in “market share” of immigrants could well be offset by an increase in the size of the immigrant pool. Yet even if Mexican immigration (or that from other relatively low income Latin American countries) were to decline, it means that an immigrant from, say, China or India substitutes within the quota for one from Mexico or, say, Honduras. On “fairness” grounds, why is Mexican immigration to be preferred to Chinese immigration? Moreover, if certain individuals or groups want to promote, say, Mexican immigration, they can do so by assisting prospective immigrants to pay their admission fees.

Moreover, a shift in immigrant composition somewhat away from the Western Hemisphere towards those from elsewhere might actually reduce immigrant-induced public policy tensions and improve public attitudes towards immigration.

Policies Regarding Unauthorized Immigrants: Past and Future

Without question, the most difficult issue in immigration policy is dealing with persons who have entered, or will in the future enter, the United States illegally. A centerpiece of American economic exceptionalism has been that the nation has been governed by rules — laws — that most Americans automatically accept. Voluntary acceptance of laws is a hallmark of prosperous nations, and disrespect for laws is commonplace in poor countries. It is universally agreed in prosperous nations like the U.S. that those who break the rules must be punished, with the major disagreement usually being over the severity of punishment, although there is occasional debate whether some existing laws are really necessary or appropriate.

The “law and order” side of me believes that all laws must be enforced until changed through constitutionally provided procedures — a vote of Congress and the signature of the President (or an override of a presidential veto). If people can enter the U.S. without regards to the laws, it creates three large problems. First, of course, is the flouting of laws has an adverse impact on the overall maintenance of law and order, a bulwark feature of American capitalism and democracy. Second, it undermines attempts to shape through public policy the magnitude and nature of immigration to the U.S. Third, illegal immigration creates unfairness and inequities — lawful persons wait in line (current policy) or pay large visa fees (proposed policy) while those breaking the laws avoid these costs and inconveniences.

For all of these reasons, even persons with highly pro-immigrant sympathies need to be cautious about endorsing blanket amnesties for those living in the U.S. in violation of immigration laws. Some sanctions for unauthorized immigration to the U.S. seem in order so that respect for the rule of law is maintained.

That said, there are real problems about taking draconian approaches to immigration enforcement. First of all, the 10-12 million unauthorized immigrants in the U.S. are now an important part of the nation's human capital stock and perform many jobs for which native-born Americans seem to be uninterested in filling, at least at current wage rates. As an economist, I would argue that would change if wages rose sharply for these positions, which is almost certainly what would happen if we had mass deportations of immigrants.

Second, many of these illegal immigrants have spent years in the U.S. and have children who, under the U.S. Constitution, are U.S. citizens. There would be horrendous issues of equity and arguably legality about deporting U.S. citizens who themselves are minors who have instigated no crimes.

Third, the laws broken in general were highly flawed and showed no regard for the positive economic impact that immigration has had on the American economy. A massive crackdown on unauthorized immigrants living in the U.S. would no doubt lead to output and income reductions and a fall in the nation's output. It would be disruptive even for non-illegal immigrants. The stores selling goods to these undocumented immigrants, for example, would see sharp sales decline, leading to business failures and the laying off of workers — most of whom are legal residents of the U.S. and, indeed, in many cases, native-born U.S. citizens.

The most important previous attempt to deal with the unauthorized immigrant problem was the 1986 immigration law, in which full amnesty was granted to a large number of previously illegal immigrants (those residing in the U.S. more than five years). If a similar law were adopted now, it would seemingly make mockery of immigration laws, implying that those breaking the laws can go scot free of punishment if they simply stay hidden long enough until another amnesty occurs perhaps 25 years from now. Having a large number of residents hiding from authorities and concealing their identity forever poses all sorts of problems for a functioning democracy, and in some cases might lead to exploitation of their illegal status by unscrupulous employers or others. Should illegal immigrants be eligible for government benefits? How do we assure that they pay taxes and other acts associated with residency, if they do not even have legitimate Social Security numbers? Should the children of illegal immigrants born in the U.S. be treated differently than the children of those immigrants born in their country of origin? The problems illegal immigration poses are many.

At this writing, public opinion polls strongly show Americans are generally hostile to giving illegal immigrants a free transition into the American work force. The one important exception is that most (73 percent) agree with President Barack Obama's proposal that would allow those brought to the U.S. as children (under 16) who have graduated from high school or served in the military and have no criminal record should be allowed to get a legal work permit. However, a majority (63 percent) oppose giving driver's licenses or public benefits even to these persons.¹²⁹

¹²⁹ Reported on the <http://www.rasmussenreports.com> web site on August 20, 2012.

An alternative approach to amnesty for existing undocumented immigrants is more appealing from a law-and-order perspective, but accepts the reality that these residents contribute importantly to the nation's resources. Under this scenario, a law is passed making it a misdemeanor crime to live in the U.S. illegally, but allows such individuals who come forth and confess to their guilt an opportunity to both pay for their "crime" and acquire a path to legal status.

There are a variety of ways that this move towards decriminalization could occur. Here is one example, assuming that the visa system discussed above was implemented for legal migrants. Have illegal immigrants to the U.S. who come clean pay a fine of \$1,000 each. Let them also borrow from private lenders (my preference) or even the U.S. government itself the money to buy at current market prices visas giving them the same rights as other purchasers of visas — including a path to citizenship. Allow the lender to garnish the wages of the individual until the loan is paid off. Set interest rates on the loan at a relatively low level, but well above what the U.S. treasury pays on long-term obligations.

Suppose an immigrant from Mexico living illegally in the U.S. comes clean. He or she would pay \$1,000 immediately, and then borrow, say, \$16,000 to cover the cost of the visa, paying five percent interest (\$800 a year in interest payments). Suppose he were making \$15,000 a year as an illegal. With a secure legal status, he likely could make more, since employers would be more willing to hire him, as they would not face the possibility of being criminally charged themselves for employing illegal workers. With increased competition for his services, his income rises to \$20,000 a year. If he pays 10 percent of his income for loan repayment, his disposable income would still rise about 20 percent from what it otherwise would have been, and the U.S. government within a decade or so would be fully paid with interest. The government comes out ahead (it has collected the visa fee and will collect future taxes not previously paid while an illegal alien) and so does the immigrant. Moreover, the immigrant becomes eligible for the government social safety net, the right to seek citizenship and participate in the democratic process through voting and ultimately perhaps even running for office, etc. It would speed dramatically assimilation into American society, which would help all Americans.¹³⁰

To be sure, some illegal immigrants would turn down that deal. Regrettably, we would have to punish this group more harshly than in the past. First, employer sanctions for employing illegal immigrants perhaps would have to rise. Second, we might have to bite the bullet and put large numbers into correctional sites for a period of time. My guess is if we more strictly penalize unauthorized immigrants who refuse the visa offer and return them to their home countries and also fine their employers several thousand dollars per worker, the recidivism rate would be dramatically lower than under current policy, particularly if the penalty for second offenses is greater than the already much increased first offense penalty. Moreover, the cost of the incarceration would be at least partly, and arguably completely, covered by employer fines, and perhaps, for a transitional period, in part from revenues from the sale of visas under the new immigration policy. As the problem of undocumented immigration declines (see the previous chapter), this should become an ever declining problem over time.

¹³⁰ There is a transitional problem with this proposal, but one that can be easily dealt with. It is plausible that the number of illegal immigrants buying visas would be so great that new immigration would actually decline for a few years. That, of course, could be handled by increasing the number of visas issued, or perhaps offering for a fixed fee approximating the market price of visas a special visa for unauthorized immigrants.

From opinion polls, we know Americans feel more charitably towards illegal immigrants who entered the States as children under the tutelage of their parents. These individuals themselves did not willfully break U.S. laws. Arguably, the financial penalties for obtaining legal status could be set somewhat lower for these individuals relative to their parents who willfully disobeyed U.S. immigration laws. Similarly, we grant various kinds of benefits to those who serve in the U.S. Armed Forces, including in some previous periods in history, a quick path to U.S. citizenship. It would make sense, perhaps, to excuse \$500 of visa fee payment for each month served in the military, roughly consistent to the college scholarship assistance provided to native-born Americans under the G.I. Bill. In most cases, this would lower the cost of a visa for veterans to zero or near zero (it is a mystery to me how illegal immigrants currently serve in the Armed Forces, but apparently it happens).

With regards to unauthorized adult immigration occurring after a new immigration law is introduced, there is no question we need to impose real penalties of a very significant magnitude so that intended immigration objectives are realized, the rule of law is maintained, and unfairness to legal purchasers of visas is minimized. That must include significant employer penalties as well as at least some jail time (or the equivalent) for the illegal workers themselves. Currently crime pays for many with respect to immigration laws; we must make it so crime does not pay.

This conceivably could lead to all sorts of changes. If fines to employers and risks to employees become too great, more and more employers will simply help workers buy visas from the beginning. This would raise the cost of employing workers, might lead to some decline in American competitiveness in some industries, such as the production of fruits and vegetables, but in the long run should lead to a more efficient and equitable allocation of resources and treatment of employees.

Readers might say, "I thought you were pro-immigrant." I am, and I think in the long run a policy similar to that suggested above is desirable because it will dramatically reduce political opposition to liberalization of the immigration laws. There is a wide subset of the population who, while contemptuous and even angry about illegal immigration, are basically accepting the principle that our nation should open its doors to newcomers from abroad.

The proposal stated above can be tweaked or changed in a variety of ways. If it were up to me, I would issue a larger number of visas annually — say 1,500,000 instead of 1,250,000. I would be relatively lenient in penalties imposed on those who came into America at a young age, or who served in the nation's armed services. Law enforcement should be effective and meaningful, but also compassionate and fair.

Alternative Approaches to Liberalized Restriction

It is possible, of course, to improve immigration policy within the context of a rules-based law administered by government bureaucrats. We could move to a more skills and vocationally based policy within the current bureaucratic framework. We could, for example, triple the number of H-1B visas issued annually, bringing perhaps 200,000 more skilled immigrants to the U.S. annually, a vast improvement over current law. However, I view this as a less attractive option, since I believe evidence has shown us time and time again that market-based resource allocation decisions almost always bring superior results to those given to us by centralized government bureaucracies. Moreover, a market-based

approach could be revenue enhancing for the government, while most alternative approaches are more likely to have negative, not positive, budgetary consequences in the short run.

Canada has used a points system that rewards attributes that, if adopted in the U.S. would likely lead to an economically more productive population. For example, using the Canadian system, we might agree to admit the 1,250,000 persons annually with the highest number of points. Suppose the maximum number of points attainable is 100, and that 1.25 million apply with 84.2 points or more. Those having over 84.2 points would be admitted, while those with fewer numbers of points would not. Perhaps the application would include an English literacy test on which those unable to perform at all would get 0 points, those who show only some English comprehension would get 5 points, and those with obviously high levels of proficiency would get 10 points. Arguably, an oral examination should be part of the exam. Graduates of colleges with advanced professional and technical degrees might get 15 points, those with bachelor degrees 10 points, and those with high school diplomas or the equivalent would get five points. Similarly, points could be awarded for previous work experience, for involvement in certain fields of employment (e.g., computer programming, engineering), etc. Wives, children, and spouses of those with high scores could get a few points credit for their relative's high score, although that sends one down the slippery slope of deciding whose relatives are admissible, and whose are not.

The points system has some modest advantages over existing procedures, but is definitely flawed in my judgment. A graduate of Oxford University is likely to be more productive than a graduate of an obscure school in Asia or Africa that has no academic distinction, but both graduates get 15 points. Five years working as a professor at a German university arguably suggests higher productivity potential than five years doing manual agricultural labor in Latin America or Asia. Any points system is going to suffer from deficiencies such as discussed above, and attempts to remedy them through an extremely elaborate system robs the approach of its simplicity and low administrative cost.

By contrast, with a rationing system based on price, these nuances in individual training and background are taken into account. If an American company desperately wants someone with some peculiar skill that is not fully appreciated by the points system, it can use its money and take a chance on the individual by paying for his or her visa. If someone wants to buy his way into the country as well as bring in a wife who is not likely to work and two young children, they can do so, but have to pay America for that privilege. Most likely, following practices followed throughout history, the breadwinner would enter first, and with the passage of time use his or her earnings to buy passage into the country for relatives.

A Compassionate, Mutually Beneficial Pro-Growth Immigration Policy

A market-based immigration policy is administratively easier to run, likely would produce an even more relatively productive immigrant population, and treats persons neutrally with respect to race, gender, religion, etc. It would promote economic growth and help us maintain our leadership in some fields, such as high technology and scientific fields. It would actually reduce the fiscal stress on the federal government. It would improve the lives of more of our planet's citizens. In short, it is a winning policy for native-born Americans, for immigrants themselves, and for future generations who will benefit from the economic prosperity unleashed by the human capital resources of our immigrant population.

Conclusions

The central theme of this book is that, by and large, immigration has been good for America. Immigrants can be troublesome at times and cause some disruption in our lives, but on the whole their presence makes life more prosperous and fulfilling. America has a growth dearth, one that has widened over time, with profound implications for our ability to meet both personal and social needs. Instead of growing the historic 3.6 percent annually, since 1970 we have grown around 2.8 percent a year. When compounded over time, the implications of that lower growth rate are many, and all negative. Our ability to care for the elderly is compromised, our provision for our own children and grandchildren is less than we would like, and our own material lives are somewhat diminished.

Indeed, I think there is a strong moral argument than can be made for immigration reform on two grounds. First is the traditional “micro” argument that caring human beings should show compassion for those less fortunate, in this case individuals living in other countries who would benefit from life in America. Second, however, is the seldom advanced broader “macro” argument: More and better skilled immigrants would have positive spillover effects on all Americans, allowing the present generation to meet its most sacred obligation: the care, nurturing, and the provision of goods, services, values and ideas to our children and grandchildren.

In the appendix, I show how I arrive at my estimate that more than 35 percent of the gap between actual growth and historic growth could have been eliminated by having a pro-growth immigration policy that would improve on existing laws in two ways: It would allow greater immigrant inflows into America, and it would increase the average productivity of the typical newcomer by indirectly tying admissions to the United States to economic criteria in a non-bureaucratic fashion. Over one-fourth of the gap between prevailing long-term growth rates and a four percent rate could be eliminated, I estimate, with such a pro-growth immigration policy.

Specifically, I estimate that GDP per capita today would be \$3,750 higher if we had adopted a pro-growth immigration policy in 1965, or probably about \$12,000 in income for a family of four. These estimates are not perfect, and there are dimensions of the economic effects of immigration not fully explored. They suggest, however, that if we opened up the gates a bit more to newcomers to be in line with the historic American trait of welcoming strangers to our land, and if we limit immigration primarily on the basis of skills and talents rather than who your relatives are, we would be a stronger, more prosperous and, I suspect, happier nation.

Appendix

Can Immigration Enhance U.S. Economic Growth?

This is a relatively non-technical book for a general audience, but a little flavor of the approach used to try to estimate how much better off we could have been if a more immigrant-friendly policy had been adopted in 1965 is in order. I used a statistical technique, regression analysis, to estimate precisely how much a given increase in the foreign-born population would have affected output.

First, I simply estimated the relationship between the percentage of the population that is foreign-born and the GDP, using data for the 50 states on both immigration and output (GDP) per capita, without controlling for other factors that might also explain variations in GDP over time or space. In one early test, I calculated that the “elasticity of output with respect to the proportion of immigrants in the population” was 0.15. In plain English, that means if the proportion of immigrants increases by 10 percent, say from the roughly 13 percent prevailing now nationally to 14.3 percent (implying about four million more immigrants), the GDP per capita would rise by about 1.5 percent, or around \$235 billion for the entire population at current levels. This is a powerful result since it implies that each additional immigrant adds well over \$55,000 to GDP. Some further testing introducing a few additional control variables lowered that elasticity substantially to .067, still, however, indicating a powerful positive immigrant impact. GDP per capita would rise more than \$300 — about \$1,200 for a family of four. At the margin, each new immigrant adds roughly \$25,000 to GDP. A five-percentage-point increase in the immigrant portion of the population would add over \$1,500 per capita to GDP. Considering personal income is about 80 percent of GDP, that implies personal income for a family of four would rise by almost \$5,000 if we had 18 percent of the population foreign-born — a serious amount of money for most families. Under reasonable assumptions, with current tax laws it would also add \$100 billion or so annually to the coffers of federal, state, and local governments, almost certainly greater than the incremental cost to the nation of providing services to added numbers of newcomers. In short, there would be a fiscal immigration dividend.

Yet the simple analysis above is subject to at least three criticisms. First, it fails to fully control for other factors that might be the true cause of the observed immigrant-output relationship. For example, it might be states with relatively high immigrant populations also had relatively highly educated persons, and that it is the high educational attainment, *not* the immigration, that explains high output levels. Second, there is a question of causality — does high immigration cause higher output, or does higher output cause higher immigration? (Or, is there causality in both directions?) Third, the simplistic model above has low explanatory power, in part because of excluded additional explanatory factors, but also for technical reasons owing to the nature of the precise functional relationship between immigration and output.

I deal decisively with two of these criticisms and considerably with the third by statistically estimating a more elaborate regression model with a goodly number of non-immigration explanatory factors, relating to such things as educational attainment, tax burden, labor union presence, and the political ideological orientation of each of the 50 states, the basic unit of observation. Additionally, I introduce a lagged factor to mute the causality criticism. Specifically, I look at per capita personal income (which derives from GDP) by states in 2010, and relate that to the proportion of the population that was foreign-born 10 years

earlier — in 2000. It makes no sense to argue that the immigrants arriving in the 1970s, 1980s, and 1990s — who comprise a majority of the 2000 foreign-born population — went to a state based on a very accurate perception of what income would be there 10, 20, or even more years later. It does make sense, however, to argue that income levels per capita in 2010 were enhanced by the presence of immigrants arriving 10, 20, or 30 years earlier, as measured in the 2000 Census.

Looking at the regression results, I observe that each one percentage point increase in the immigrant proportion of the American population raised per capita GDP by \$390 in 2010.¹³¹ If the immigrant proportion of the population had risen after 1965 (when the current main immigration law was passed) so that today 18 percent of the population were immigrants instead of 13 percent, I estimate that per capita income would be about \$1,950 higher, or annual GDP for the entire population would be somewhat over \$600 billion higher (about four percent) than it actually is. These numbers are importantly larger than those implied by George Borjas (see earlier chapters). If these conclusions are even approximately correct, and if the 1965 immigration law had allowed much more liberal immigration admissions very much like suggested in chapter eight, we would be materially better off as a nation today.

But an immigration reform policy would involve far more than merely increasing the number of immigrant admissions. A market approach to allocating most of a liberalized immigrant quota would certainly lead to a more educated and skilled immigrant work force, so that the human capital gains associated with immigration would be greater than indicated by the mere numerical increase. We can expect increments to output to be greater with new arrivals who have college degrees as opposed to less than a ninth grade education. The same statistical analysis that led to estimate of the immigrant/output relationship also yields an estimate of the impact of educational attainment on output.

Assume that an immigrant visa-auction process such as suggested in chapter eight raises the average level of adult immigrant college degree attainment from somewhat below the average of the entire population to well above it, greater than college attainment for native-born Americans, and further assume that immigrants were 18 percent of the nation's population instead of 13 percent. That would raise the overall proportion of college graduates in the nation's population over the age of 25 from about 30 to about 32 percent — two percentage points. The regression analysis looking at the foreign-born/output relationship also included an estimate of the college degree (percent of adults with bachelor's degrees or more)/output relationship as well. If in fact an immigration policy like that introduced in chapter eight had led to an increase in the aggregate national college degree attainment rate by two percentage points, I estimate that would raise GDP per capita by almost precisely \$1,800.

Thus I estimate that the impact of implementing a growth-oriented immigration policy stressing more and better educated/skilled immigrants would raise output per capita by \$3,750 — divided almost equally from increases in the numbers of newcomers (\$1,950) and probable improvements in their human-capital endowments and enhanced assimilation skills (\$1,800), as more educated persons with greater English language fluency handle the transition to America better than those lacking those traits. This implies a GDP in excess of \$1.1 trillion dollars larger than actually exists — more than a seven

¹³¹ This finding is statistically significant at the five percent level using a one-tailed statistical test, as I think is appropriate. The underlying regression uses ordinary least squares procedures, with the results corrected for heteroskedasticity using the Jackknife technique.

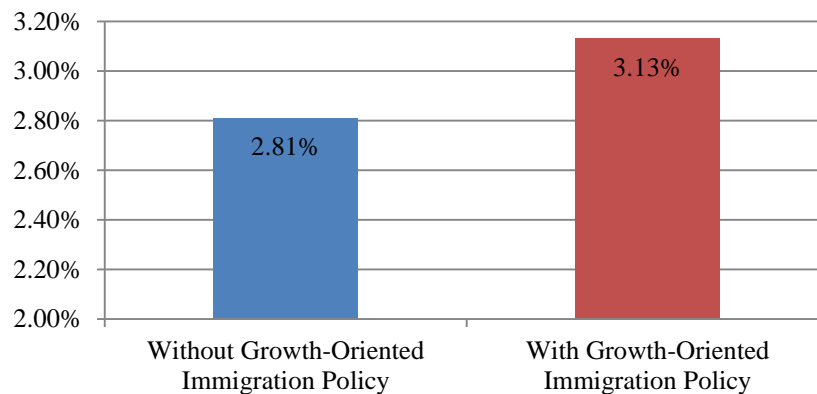
percent increase in GDP. If 80 percent of the output increase flows to individuals in the form of income, on average an American family of four would have roughly \$12,000 more in income today than is the case. Immigration, indeed, can be an important tool in increasing American economic growth, the material welfare of its citizens, and the ability of the nation to overcome the severe fiscal challenges it faces from massive deficit financed spending.

Moreover, total GDP would actually rise more than the numbers above suggest based on per capita calculations. Increased immigration implies a greater population, unless one assumes the Walker Thesis holds true with a vengeance, namely that every new immigrant is offset by an equivalent decline in native-born population growth. A more realistic, and actually probably conservative, assumption is that population would rise by an amount equal to the increased number of immigrants required to allow for a five percentage point increase in the immigrant share of the population. This would imply a population increase of well over 15 million Americans.

With the estimated GDP per capita numbers associated with enhanced immigration and the estimated increase in population, we can calculate the estimated total GDP that would have existed if a growth-oriented immigration policy had been in effect. The actual 2011 GDP (as of this writing) was \$15,075.7 billion. The estimated GDP had a growth oriented immigration policy similar to that outlined in chapter eight been in effect is \$17,135.09, over two trillion dollars larger, with a bit less than half of that reflecting population increase, and the rest greater output per person.

Figure 9-1¹³² shows the implications of this for economic growth. In reality, the real GDP of the United States rose by 2.81 percent a year from 1970 to 2011. If the GDP had grown the extra two trillion dollars associated with more and increasingly skilled immigration, the annual growth rate would have been 3.13 percent — 0.32 percentage points more per year. If a realistic but ambitious growth goal were four percent a year, as advocated by the Bush Institute's 4% Growth Project, then almost 27 percent of the gap between actual GDP growth and the GDP growth goal would have closed by a modern immigration policy. Immigration reform, then, is important, and while by itself it cannot get the U.S. to a high growth rate, it can be an important component in a package of growth-oriented public policies.

Figure 9-1
Actual vs. Predicted GDP Growth, 1970-2011

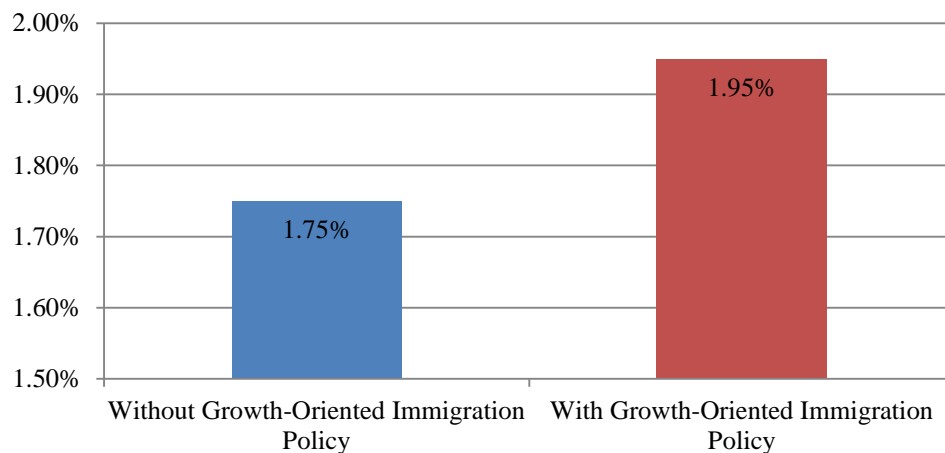


¹³² Source: U.S. Bureau of Economic Analysis, Bureau of the Census, author's calculations

What about per capita growth? After all, growth in GDP almost certainly does not have positive welfare implications if it is completely offset by having more persons using that enhanced output. I calculated the per capita GDP growth rate implied by the statistical analysis above, and compared it with the actual performance (Figure 9-2¹³³).

As I estimate it, a pro-growth immigration policy would add 0.20 percentage points to the growth rate, raising it noticeably from 1.75 to 1.95 percent a year. The miracle of compound interest is at work here – a seemingly small difference in growth rates translates over time into the large \$3,750 per capita figure discussed above. As a popular song from 1954 proclaimed, “Little Things Mean a Lot.”

Figure 9-2
Actual vs. Predicted GDP Per Capita Growth, 1970-2011



This is far from the last word on this topic. The statistical estimation is subject to criticism. For example, it can be argued that, given the far-reaching and often unintended consequences of population changes on society, a complex computable general equilibrium statistical model is needed to fully assess the impact of immigration. It is not clear what the effect of such an analysis would be, but since there are a number of positive dimensions of immigration, such as its almost certain positive effects on the savings rate, patent activity, and entrepreneurial initiative, that were not explicitly addressed in the modeling done here, I would not be surprised that my growth estimates could be unduly conservative.

¹³³ Source: U.S. Bureau of Economic Analysis, Bureau of the Census, author's calculations

Acknowledgements

In accepting an appointment as a Fellow of the George W. Bush Institute, I agreed to write a longish essay on the impact that American immigration had on economic growth. From the beginning, I thought the best way to do that would be to put the immigrant experience into a broader historical context and point out the practical difficulties of effecting more pro-growth immigration policies, all difficult to do in a single essay. Hence, I wrote this short book.

Five persons connected with the Bush Center contributed to this effort a great deal. Amity Shlaes and Jim Glassman were the prime movers in making the arrangement happen. Robert Asahina added his considerable editing talents to improve the product. Above all, nothing would have happened were it not for my former student and now best of friends Matthew Denhart, who worked tirelessly with me in getting us from idea to finished product. Matt was probably the finest student I have had in nearly a half century of teaching, and his talents and extraordinary human virtues came through in spades on this project. Lastly, of course, I was inspired by George W. Bush, who worked mightily to try to reform our immigration laws, and whose work allowed both the Four Percent Growth Project and this effort to proceed.

At Ohio University, where I spend most of my waking moments, a number of persons mattered. First is Lowell Gallaway, my longtime friend, colleague and co-author of lots of articles on immigration, and an unpublished book length manuscript from which I shamelessly stole passages and ideas. Second, a small army of students present and past provided occasional help, most notably Jonathan Robe, now Senior Research Fellow at the Center for College Affordability and Productivity, Christopher Denhart, and Michael Koslen. But one student was especially helpful, putting up with my near obnoxious cajoling and pressuring, Daniel Garrett. Dan is one the brightest minds I have ever known, and he combines competence with humor and humility to get the job done. Finally, this book required sacrifices from my wife of over 44 years, Karen, especially as I tiptoed out of the bedroom every morning at five o'clock or thereabouts to work on this manuscript. To her I owe the most.