# An Economist's Guide to Immigration Reform

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# Workforce Disrupted
Seeking the Labor Market's Next Equilibrium

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## Abstract

Immigration is one of the most contentious policy issues, and Congress has for decades failed to make any significant legislative progress. The result is an incoherent policy landscape and serious operational challenges on the ground. At the same time, immigration and immigrant integration are critical to U.S. workforce growth, government fiscal solvency, and innovation. I discuss key findings from the economics literature and their implications for where to focus immigration reform efforts.

## Introduction

The United States is the world's most common destination for immigrants. About 14 percent of the U.S. population – and 18 percent of the American workforce – was born outside the U.S., and we often refer to the country as "a nation of immigrants." But net migration slowed substantially in the 2016-2021 period, and our current policies fail to maximize the economic benefits of immigration.

What do economists have to say about immigration? To summarize a vast literature, most economists agree that immigration is good for the US economy on the whole. Immigration is critically beneficial to the labor force, the fiscal picture, and innovation. I will discuss each of these in turn below and then examine the policy landscape, describing the country's current policies and the key changes needed for the U.S. economy to realize immigration's full potential benefits.

There are important humanitarian considerations and other impacts of immigration policy, yet these issues are not the central focus of this piece.

# The Economic Impacts of Immigration

**Labor Market Impacts**

There is a large body of economic research investigating the impacts of immigration, much of which focuses on labor market opportunities for the U.S.-born population. To an Econ 101 student it might seem obvious that expanding the labor supply would reduce wages, but real-world evidence gives a more complicated picture. The workers that are adversely affected by immigration are those whose work is most easily substituted with that of new arrivals. These more vulnerable workers include the U.S.-born population without a high school degree as well as earlier waves of immigrants, and there is mixed evidence on whether these groups are harmed by new immigration (National Academies Press, 2017). Downward pressure on wages may be more significant from undocumented migration than from legal migration (Albert, 2021). Most U.S.-born workers see no adverse impact from immigration, and many see their wages rise as a result of the influx.

Why is this? In many cases, U.S.-born workers become more productive as a result of immigration because an immigrant workforce leads to more specialization. Immigrants also create jobs by doing work that would otherwise not be done by a U.S.-born workforce or would be mechanized. A historical example of this phenomenon is the Bracero guest worker program in the mid-1960s when farms faced labor shortages and adopted labor-saving crop types and equipment (Clemens, Lewis, and Postel, 2018). Immigrant workers are also consumers, spurring demand while they add to the supply of labor.

Immigrants are more mobile than comparable U.S.-born workers, a fact which plays an underappreciated role in the economy. Upon arrival to the U.S., immigrants tend to move to places with growth potential and professional opportunities, and they are more likely to relocate in response to economic conditions. During the Great Recession, for example, Mexican men were more likely to leave

[distressed areas](#) within the U.S. (Cadena and Kovak, 2016), thereby shielding less mobile U.S.-born workers from the most severe effects of the downturn.

Immigrants are vital workers in many sectors, and one prime example of immigrant labor's preponderance is among the health care workforce. Immigrants are disproportionately represented at the [higher- and lower-ends of the health care occupation distribution](#), with 28 percent of physicians and 38 percent of home health aides foreign-born (Migration Policy Institute, 2018). The U.S. has severe shortages in many areas of the direct care and health care fields, a problem that could be ameliorated with expansions in immigration.

Immigration alters the U.S. labor market mostly in ways that benefits American producers and consumers. It is important, however, to make sure the needs of the least advantaged U.S.-born workers are addressed. A key policy to address these needs is to regularize undocumented workers, a strategy discussed below.

**Fiscal Impacts**

Like other economic actors, immigrants both consume government-provided transfers and benefits and contribute to revenues.

The National Academy of Sciences released the 2017 report "The Economic and Fiscal Consequences of Immigration," which attempts to comprehensively count the net fiscal impacts of America's immigrant populations. This is a conceptually tricky exercise because it requires answering difficult questions such as, how should the descendants of immigrants be treated in the calculation? Should national defense expenditures be attributed to immigrants, even though the government spending in this category doesn't depend much on immigration flows? What assumptions should be made about the future of Social Security? Should one assume the marginal immigrant will be more like recent immigrants or more like the population of immigrants overall?

In its study, the National Academies considers multiple scenarios with varying results. In this paper, I focus on the scenario that considers only the expenditures associated with one marginal new immigrant similar to recent immigrants and their dependents, without attributing a share of the national defense budget, and using the Congressional Budget Office assumptions to project future budget outlays for entitlement programs. Over a 75-year horizon, the net fiscal benefit of an immigrant and their descendants is $259,000 in present value. The benefits are lower in alternative scenarios, but the report paints a rosier picture of immigration's fiscal impacts than the political rhetoric about the issue would suggest. Immigrants particularly add to government outlays in the education and health sectors. Immigrants often have children in the public school system, and 27 percent of K-12 schoolchildren are from immigrant families. And although immigrants tend to use less health care than the average U.S.-born person, they and their children do use health services that are partially government-funded. Safety net participation is lower among low-income immigrants than among comparable U.S.-born families. The National Academies report finds that, over a 75-year horizon, an immigrant and any descendants will consume $563,000 in net present value of benefits.

On the revenue side, many immigrants file federal income and payroll taxes, including some undocumented immigrants. (Undocumented immigrants may use an alternative to a Social Security number, called an ITIN, to file income taxes, and there were $6 billion in ITIN filing in 2019.) Immigrants also contribute to states and localities through income, property, excise and sales taxes. The National Academies assesses the 75-year present value of revenues at $822,000 for the average immigrant and their descendants.

The role of immigration in the solvency of the Social Security and Medicare systems is of particular interest. Immigrants are important contributors to these systems through the payroll tax, and, because they tend to be younger and healthier than the average U.S.-born resident, their benefit receipt is farther in the future. Some immigrants work under a false Social Security number, and they typically pay

into the system but are unlikely to receive benefits. On net, immigration inflows extend the solvency of the system: Social Security actuaries estimate that each 100,000 additional immigrants' annual inflows improve the long-range actuarial balance by about [0.09 percent of taxable payroll](). Given the political challenges inherent to cutting benefits and raising taxes, immigration expansion is likely to be a core part of any solution to the Social Security solvency issue.

Immigration has a net positive impact for the federal government, yet there are adverse impacts for some states and localities. Newly-arrived, less-educated immigrants are more likely to impose a fiscal burden on state localities, which assume greater education and health costs without a commensurate increase in revenue. The National Academies report estimates a $2,000 net fiscal benefit at the state and local level for immigrants on average, [but losses between $10,000 and $74,000 at the state and local level]() over a 75-year horizon for immigrants without a college degree. Because certain states and localities bear a disproportionate fiscal burden for federal immigration decisions, there is a case for redistribution from the federal government to places absorbing less-educated immigrants.

**The Demographic Imperative**

The fertility of Americans is now below replacement rate, [with 1.7 children born to an average woman](). The Census Bureau projects that, in the absence of migration, the [U.S. population would start to decrease in the 2030s](). In other words, the future of population growth in the United States will be *entirely* driven by immigration flows and immigrant fertility in coming decades.

Under current projections, the U.S. faces an aging population. In the year 2000 there were [5 adults ages 18-64 for every person 65 and up](), the number has fallen to 3.6 [and is projected to fall to 2.7 by 2040](). This demographic shift will strain the Social Security and Medicare systems. The increased population of older adults – especially those ages 85 and above, which will grow from 4.2 million in 2000 to 14.4 million in 2040 – also poses a significant caregiving challenge.

**Innovation and Entrepreneurship**

Immigrants are disproportionately represented among America's entrepreneurs. More [than a fifth of all U.S. business owners are immigrants](). One study found that immigrant-owned enterprises are responsible for [all of the recent growth]() in so-called Main Street businesses (such as retail, food service, and neighborhood services). Immigrants are also overrepresented in the boardrooms of large corporations; [44 percent of Fortune 500 CEOs are immigrants]() or the children of immigrants.

Immigrants have proven vital to fostering innovation. Nearly a quarter of America's STEM workers and more than a quarter of the country's Nobel Prize winners are foreign-born. Foreign-born inventors in the U.S. [hold 23 percent of patents]() and these patents, on average, have a greater impact than those of U.S.-born workers. Start-up firms that are fortunate in the H-1B visa lottery and are allowed to hire high-skill immigrant labor are [more likely to secure venture capital funding and produce more patents than companies that have fewer H-1B visa workers]().

## The Policy Landscape

There are two primary legal pathways for migration to the United States: family-based and employment-based. In the family-based sector close relatives of U.S. citizens (spouses, parents and minor children) are able to migrate without limit, and 400,000-500,000 individuals obtain green cards (permanent residence) in a typical year. There are also other pathways for family members of citizens and permanent residents subject to numeric annual caps that have been fixed for decades. Despite the U.S. population growing by a third since 1990, the numeric immigrant caps have remained unchanged. There is a rule that no more than 7 percent of family-preference migrants can come from a particular country of origin. Depending on the relationship type and country, there are long waiting lists ranging from 8 to 22 years.  In sum, approximately 600,000-800,000 immigrants arrive annually through a family-based pathway.

Unlike the family-based migration pathway to permanent residence, some employment-based migration is designed to be temporary. For highly educated migrants arriving on the temporary H-1B program, there is an opportunity to transition to a permanent visa. Less-educated migrants on the H-2A and H-2B programs typically must return home without a pathway to stay permanently. In 2022, there were about 770,000 temporary employment H-visas issued. There were also 270,000 permanent, employment-based green cards issued, the bulk of which went to temporary visa holders. The employment-based system's 7 percent country-of-origin cap meanwhile has led to a decades-long queue for Indian nationals seeking a green card.

In addition to these two major buckets, there are a few smaller programs that create legal avenues for migration, including recently expanded humanitarian programs and the so-called diversity visa. But for the majority of the 100+ million people around the world who would like to live and work in the United States there is simply no way to obtain a green card, no queue in which they can "wait in line."

Of course, some would-be migrants find a way to get to the United States. The [most common way to become an unauthorized immigrant](#) in the years leading up to the Covid-19 pandemic was to overstay a temporary work, travel, or student visa. Surreptitious border crossings capture much of the media attention, and are [much less common than they were 20 years ago](#), although their prevalence has increased in the past few years.

The large numbers of migrants at the border in recent years, for the most part, poses a separate challenge, as most of these individuals are seeking asylum, and the U.S. is [bound to consider these cases as a matter of international obligation](#). Asylum-seekers typically cross the border between ports of entry and surrender to a border patrol officer. The system is backlogged and overwhelmed, leading to humanitarian harms and a sense of chaos at the border. The Biden administration is experimenting with

alternative models to allow asylum-seekers to start the process closer to home or to stay in the United

States on parole while their cases are adjudicated, but these are incomplete solutions.

There are approximately 11 million individuals living in the United States without legal status.

Many have been living and working in the United States for decades. In my book, *The Border Within: The*

*Economics of Immigration in and Age of Fear,* I document the economic and humanitarian harms of

aggressive immigration enforcement. In the not distant past, there were moments of political consensus

around offering pathways to citizenship for portions of the undocumented population as a central

component of comprehensive reform. The country would reap significant economic benefits from doing

so.

## Where to Go Next

The economist Michael Clemens has argued that the U.S.'s restrictionist policies are tantamount

to ["leaving a trillion dollars on the sidewalk."](#) Reform is clearly needed. If one were to design a new

immigration system from scratch, no one would start with our convoluted, outdated models. Within the

current framework there are priorities for reform: expand legal migration including targeted expansions

of employment-based migration, regularize the undocumented population, redistribute to states and

localities receiving certain migrants, and adequately fund the immigration bureaucracy.

*Expand Legal Pathways*

As noted above, most pathways for legal permanent migration and temporary migration for

work have numeric caps that haven't been updated in three decades. Family preference migration

should be expanded to facilitate flows for immigrants with close family ties in the United States. Family-

preference migrants arrive with built-in networks to help them ease the transition and find work,

improving their ability to contribute to the economy quickly upon arrival. The increase in family-based

migration should be gradual and should default to a continually increasing cap to future-proof against an

inertial Congress. I suggest a gradual increase in numeric caps for family-preference green cards of 1-2

percent per year. Other reforms can be put in place to avoid long queues: loosening of the per-country caps and a maximum wait time of ten years for the highest-priority family visas.

Expansions are also needed on the employment side. Existing caps in permanent employment-based migration should also be substantially raised starting with a 25 percent increase in current limits, followed by 1-2 percent annual increases along with loosening of per-country caps and a ten-year maximum wait time. These changes would start to address the severe backlog in the process of converting H-1B temporary visas to green cards, which is decades long for some Indian nationals. The temporary employment visa categories should also gradually expand to improve firms' abilities to hire skilled technical workers as well as seasonal and shortage workers.

I propose two additional reforms to improve the immigration system and its outcomes for individuals and the U.S. economy. The first is a health-care specific visa for doctors, nurses, and direct care workers. This would renew and expand the defunct H-1C nursing visa, helping to alleviate shortages in these sectors, which are expected to become more severe as the population ages. The second is the adoption of a "Heartland Visa" model similar to what the [Economic Innovation Group has proposed](#). The idea is that states and localities would be able to sponsor migrants to live and work in a place for a once-renewable three-year term. The visa would be dual intent, meaning that immigrants could transition to permanent status after six years and live anywhere in the United States. The program was originally envisioned to allow local areas in decline to bring in highly educated immigrants, yet the skill set of the migrants should be determined at the local level. Given that H-1B employers tend to be concentrated in high-income and high-growth parts of the country, the Heartland Visa allows for the benefits of employment-based migration to be spread throughout the nation.

## Regularize the Undocumented Population

Undocumented immigrants are fiscal and economic contributors to the U.S. economy. Undocumented status, however, makes it difficult for workers to advocate for better wages and working

conditions and creates barriers for immigrants to engage in their most productive work activities, which are often in the formal sector. The stability of a permanent status confers significant benefits on families and communities. Transitioning workers into the formal sector may also reduce downward pressure on wages for U.S.-born workers without a high school degree. Most compromise reform proposals include regularization for so-called "dreamers" – immigrants who arrived as children – and sometimes a broader group. These efforts are warranted on economic *and* humanitarian grounds.

**Address Short-Term Fiscal Issues**

My recent Hamilton Project piece with Wendy Edelberg argues for the federal government, which is a fiscal winner from expanded migration, to [redistribute to the localities facing the immediate fiscal burden](). We propose health and education funding for health centers and school districts serving a disproportionate share of less-educated, newly arrived immigrants. This redistribution is meant to address the reality that, though immigration is beneficial in the long run and especially so at the federal level, the short-term fiscal costs can pose a substantial burden at the local level.

**Fund the Immigration Bureaucracy**

The immigration system is actually many systems, with different components located in different administrative silos, including multiple parts of the Department of Homeland Security and the State Department. There are substantial administrative backlogs in visa processing, enforcement-related hearings, asylum claims, and other systems, separate and apart from the backlogs generated by excessively restrictive legislative caps on migration. This lack of administrative capacity puts sand in the gears and undermines the system's efficacy as a whole.

## Conclusion

The United States' position as the world's leading destination for immigrants has served us well. It has allowed the country to attract the top talent from around the world, to have a nimble and vibrant

economy, and to become the center of technological innovation. Immigration has in many ways been the U.S.'s superpower.

The U.S. should not assume that it has a monopoly on attracting talent. In summer 2023, for example, Canada announced a program to [allow 10,000 U.S. H-1B visa holders to move there](#) with a permit to work anywhere in the country; the application portal hit this limit within 48 hours. The U.S. Congress is abdicating its responsibility to modernize the immigration system, risking substantial economic harm to the nation. Smart policies would allow the U.S to fully benefit from its not-so-secret superpower but only if political actors on both sides prioritize the nation's economic well-being.

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