

# Heaven's Door:

## Immigration Policy and the American Economy

ILLUSTRATIONS BY  
SCOTT MENCHIN

Americans have an exceptionally well-honed capacity to think inconsistent thoughts about public policy. Schools, almost everyone agrees, are pretty bad. But the majority thinks the schools *its* kids go to are pretty good. The Federal Government is a parasite, funneling hard-earned wages into useless programs. Except, of course, for Social Security, Medicare and defense, which are extremely popular – and consume the vast bulk of Federal revenues. ¶ So it is with immigration. Immigrants are our parents, who accepted the hardships of starting over to make a better life for their kids. But immigrants are also those sneaky folks from Mexico and Pakistan who are taking jobs away from real Americans. We honor them, fear them – and enjoy the bounty of their labors. ¶ By the same token, George Borjas's new book *Heaven's Gate* (Princeton University Press) is bound to excite contradictory feelings. On the one hand, Borjas, a Cuban-born immigrant who now teaches economics at Harvard's Kennedy School of Government, acknowledges the debt he owes to this country. On the other, he advocates a sober re-examination of an immigration policy that reunites families and keeps the price of all sorts of middle-class services affordable – but reduces the living standards of unskilled natives. ¶ Is Borjas right? That's for you to decide.



BY GEORGE J. BORJAS

**In one sense,** this is a very personal book. I am, after all, an immigrant. To be more precise, I am a Cuban refugee. My family – like millions of other families who have found themselves in similar circumstances – benefited immensely from the opportunity to live in the United States, giving us access to political privileges and economic opportunities that most people in the world cannot even imagine. And yet this book will surely be interpreted by some as presenting an unfavorable view

of immigrants. Part of the problem is that the immigration debate frames the issues in black and white: one must either be in favor of wide-open borders or of highly restrictive immigration policies. However, as with most things in life, there is a large range of options in varying shades of gray.

The evidence indicates that immigration imparts both benefits and costs on the United States. Yet because the book is not a paean to immigration, I fear that it will be pigeonholed as supporting the position that immigration is inherently harmful and should be greatly curtailed – or even stopped altogether.

I have been thinking about immigration for a long time. In fact, I remember the first quiet rumblings about *emigracion* soon after Fidel Castro's tanks rolled into Havana. I was 8 years old. My family had been part of the entrepreneurial class in prerevolutionary Cuba, owning a small factory that manufactured men's pants. The entire family worked at the factory, and it employed an additional 30 or so employees. Although we lived a comfortable life, the scale of the operation was too small to allow us to accumulate much wealth – let alone transfer it out of the country in the pre-Castro days. At the same time, however, the factory was too threatening for the ideologues opposed to entrepreneurship and indi-

vidual incentives. A year or so after Castro's arrival, the factory was confiscated, and my family's means of support suddenly disappeared.

I remember the gatherings where my family discussed emigrating to the United States. I listened attentively as my relatives talked in hushed voices about the mechanics and difficulties of getting a "green card," as the magical piece of paper that permits a person to live permanently in the United States is commonly known.

Those conversations, of course, were entirely in Spanish, and it was then that I first heard about *la residencia* – the Cuban slang for this permit. I began to daydream about the Hollywood lifestyle that America entitled a person to. My *residencia* in Miami would surely have dozens of rooms, a swimming pool and beautifully landscaped grounds.

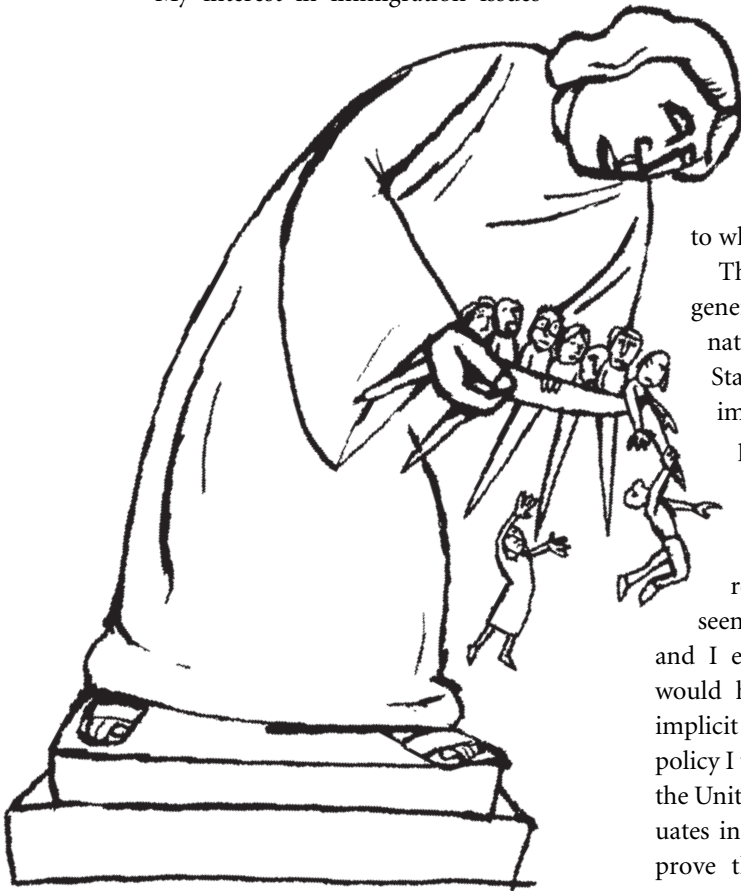
My father died just before the Bay of Pigs fiasco, and it wasn't until after his death that my mother began the paperwork required to leave the country. Her efforts, along with the generous assistance of the Catholic priests who had taught me in school in prerevolutionary days, finally paid off on the morning of Oct. 17, 1962. That was just a week before the Cuban missile crisis and the permanent shutdown of the "freedom flights" that had

carried thousands of Cubans to a new life in the United States.

We boarded a Pan Am propeller plane and landed in Miami an hour later. Although it is less than 200 miles from Havana to Miami, it immediately struck me that the two places were polar opposites. Havana was dead; nothing was possible because the prison walls surrounded everything and everyone. Miami was alive!

To this day, I am amazed by the courage and boldness that my mother and millions of others exhibited in picking up the little they had and starting life again in a foreign country. And I have often wondered whether I would have been as courageous if I had faced similar circumstances.

My interest in immigration issues



has continued through the years – in college, where I carried out a survey of immigrant households for a sociology class; in graduate school, where my doctoral dissertation addressed issues related to labor mobility, and throughout much of my professional career, a large chunk of which I spent in California, the hot zone of modern immigration.

I learned how to be an economist at Columbia University and the University of Chicago and began my professional study of immigration issues with a strong “Chicago school” perspective. Because free-market solutions are generally hard to beat, it seemed eminently sensible that the United States should place as few restrictions as possible on immigration. But I have to admit that my

thinking on this issue has changed substantially over the years. I began to appreciate that the immigrants and the native population of the United States might not have the same interests and, as a result, one had to make a choice as

to who mattered more.

This book stresses that immigration generates both costs and benefits for the native-born population of the United States. Thus, the economic impact of immigration will vary by time and by place and can be either beneficial or harmful.

I am fully aware that my own immigrant experience and the policy recommendations contained here may seem incompatible. Although my family and I entered the country as refugees, we would have been unable to pass the tests implicit in the skills-oriented immigration policy I think would best serve the interests of the United States. There were no college graduates in my family, no reserves of wealth to prove that we would not become public

charges, no particular skills that would seem “urgently needed.”

Nevertheless, I believe that immigration policy should be set in ways that further the national interest, and this may simply not coincide with giving a particular person or ethnic group the opportunities America offers.

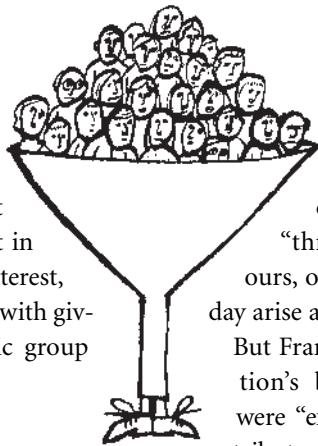
### **REFRAMING THE IMMIGRATION DEBATE**

In January 1979, China’s Vice Premier, Deng Xiaoping, made a state visit to Washington. At one of his meetings with President Jimmy Carter, the President began his standard lecture, stressing that China had to learn to respect human rights. Like most communist countries, China made it extremely difficult for its citizens to leave – presumably because none should ever want to leave a workers’ paradise.

“Mr. Vice Premier,” the President said, “the Jackson-Vanik amendment prohibits our granting ‘most-favored nation’ status to centrally managed economies, unless they provide freedom of departure for their own nationals.” Deng Xiaoping leaned back in his chair, smiled and asked, “Well, Mr. President, how many Chinese nationals do you want? Ten million? Twenty million? Thirty million?”

There, in an ironic nutshell, is what the immigration debate is all about. Since there are many more persons who want to migrate to the United States than the country is willing to admit, whom should the country accept?

This debate has raged throughout American history. Twenty-three years before he signed the Declaration of Independence, Benjamin Franklin ruminated at length about the costs and benefits of German immigration. On the one hand, he wrote, German



immigrants are “the most stupid of their own nation.

Few of their children in the country know English,” and “through their indiscretion, or ours, or both, great disorders may one day arise among us.”

But Franklin also appreciated immigration’s benefits: German immigrants were “excellent husbandmen and contribute greatly to the improvement of a country.” In the end, Franklin concluded, the benefits could outweigh the costs. “All that seems necessary is, to distribute them more equally, mix them with the English, establish English schools where they are now too thick settled.”

American history is littered with such calculations. In some periods, they encourage an open-door immigration policy – as was the case until 1924. In others, they tempt the country to close the door – as was the case from 1924 through 1965.

As the 21st century begins, the United States is about to embark once again upon an uneasy debate about immigration policy. And again, an implicit cost-benefit calculus frames it: Who loses from immigration and by how much? Who gains and by how much?

Consider the possible costs. There is a great deal of worry that immigrants make extensive use of social services and do not pay their way in the welfare state. There is also anxiety that competition with immigrants harms American workers. And there is another traditional concern: Will today’s immigrants find it harder to assimilate than earlier waves did? Will the presence of hard-to-assimilate immigrants further balkanize the country, with undesirable social, economic and political consequences?

On the benefit side, it is sometime argued that immigration spurs economic growth by

contributing to new industries – think Silicon Valley. Immigrants reintroduce ambition and drive into the economy, helping to propel the country forward. The large-scale migration of less-skilled workers may also reduce the prices that Americans pay for goods and services. By the same token, some industries – such as California agriculture – would very likely disappear if immigrant labor were not available. In short, the size of the economic pie may be greatly increased by immigration.

**SOME STYLIZED FACTS OF IMMIGRATION**

**The Number of Immigrants Entering the United States is at Record Levels.**

Although the United States has admitted immigrants throughout its history, the numbers have fluctuated greatly. Eras of heavy migration were followed by decades of rest, during which successive waves were assimilated into the American mainstream.

Surprisingly few immigrants – about 10 million – entered the country between 1820 and 1880.

The huge flow that has come to be known as the Great Migration began around 1880 and continued until 1924, bringing 26 million immigrants. Between 1901 and 1910, at the peak of this unprecedented migration, an average of 900,000 arrived each year.

Restrictions imposed in 1924 and reinforced during the Great Depression reduced the flow to a trickle by the 1930's. Since then the number of immigrants has risen, with the pace accelerating in the 1970's and 1980's. By the late 1990's, nearly one million persons were entering the country legally each year, and another 300,000 were coming illegally.

The number coming today is at record lev-

els. The country, however, is much larger now than it was in the early 1900's. As a result, advocates of liberal immigration emphasize that the foreign-born share of the United States population is much lower now – implying that immigration is not as serious an issue as others make it out to be. In 1910, 15 percent of the population was foreign-born, compared with 10 percent in 1998. It is worth noting, however, that the foreign-born share

**NUMBER OF LEGAL IMMIGRANTS**



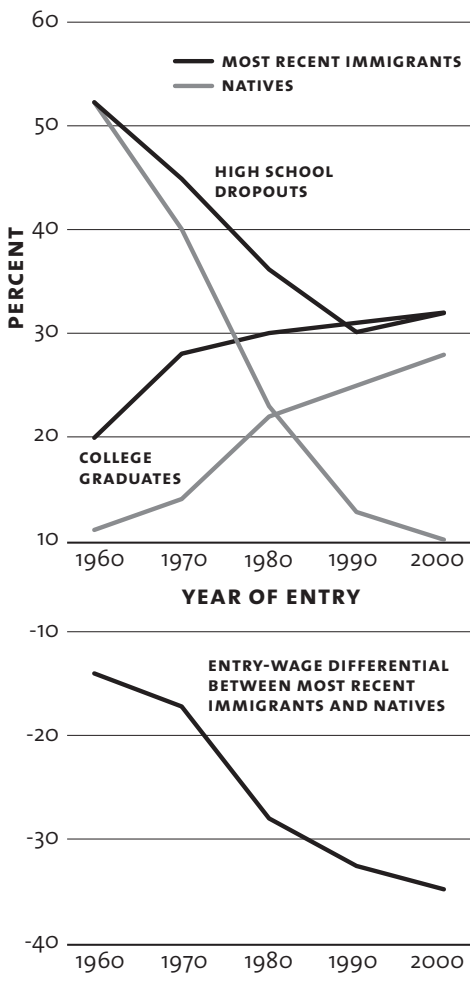
of the population has doubled since 1970.

Moreover, it is not clear that this spin on the data accurately describes the demographic impact. Because of the increasing number of immigrants and the lower fertility rate of American women, immigration in the 1990's (as in the early 1900's) accounted for at least a third of the growth in population. This clearly justifies calling the large immigrant wave that began after 1965 the Second Great Migration.

**The Relative Skills and Economic Performance of Immigrants Have Declined.**

In 1960, the average immigrant male earned about 4 percent more than his native

**THE CHANGING SKILLS OF SUCCESSIVE IMMIGRANT WAVES**



counterpart. By 1998, the average immigrant earned about 23 percent less.

The worsening economic performance of immigrants is partly attributable to a decline in their relative skills. Immigrants in 1960 were better educated at their time of arrival than natives; by 1998 the newest immigrants averaged almost two fewer years of schooling. Not surprisingly, the relative wage of successive immigrant waves also fell.

On entry, immigrants have traditionally

received lower wages than their native counterparts. Nonetheless, the relative decline is striking: the newest immigrants in 1960 earned 13 percent less than natives; by 1998, the newest immigrants earned 34 percent less. This relative decline in immigrants' skills helped rekindle the debate over immigration policy and is the source of many irritants that have surfaced.

Not every new immigrant fits this description: Immigrants tend to cluster at both ends of the skill distribution. But the bump at the bottom has become much more pronounced. By the late 1990's, almost 40 percent of the immigrants were in the bottom fifth of the native wage distribution, and only 14 percent were in the top fifth.

**Immigrant Earnings Will Continue to Lag.**

The worsening economic performance of new immigrants might not be a cause for concern if their disadvantage diminished as they assimilated. However, the economic gap between immigrants and natives does not narrow substantially during the immigrants' working lives.

Judging from the past, economic assimilation – the acquisition of skills that employers value, such as English language proficiency – narrows the wage gap between immigrants and natives by about 10 percentage points in the first two decades after arrival. Immigrants who entered the United States after 1980 had a 25 percent wage disadvantage at the time of entry. Thus, if these recent arrivals experience the same rate of economic assimilation as earlier waves, the wage gap between recent immigrants and natives will remain above 15 percent through much of their lives.

**National Origin Matters.** The increase in immigration in recent decades is in part caused by changes in United States policy. Before 1965, immigration was guided by national origin quotas that allocated most

visas to people from Western Europe – particularly Britain and Germany. The 1965 amendments to the Immigration and Nationality Act (and subsequent revisions) repealed the national origin restrictions, increased the number of visas and made family ties to persons already living in the United States the key to determining who can enter.

As a consequence of these shifts as well as major changes in economic and political conditions in the “source” countries, the national origin mix changed radically. Two-thirds of the legal immigrants admitted during the 1950’s came from Europe and Canada, one-quarter from Latin America and only 6 percent from Asia. By the 1990’s, just 17 percent came from Europe and Canada, while almost half were from Latin America and 30 percent were from Asia.

These changes have generated great concern about the ethnic and racial composition of the population. In 1970, 5 percent of Americans were Hispanic, 1 percent Asian and 12 percent black. By the year 2050 the population is projected to be 26 percent Hispanic, 8 percent Asian and 14 percent black. If nothing else, the Second Great Migration has altered the “look” of Americans in ways unimaginable in 1970.

There are also huge differences in economic performance among national origin groups. Immigrants from El Salvador and Mexico earn 40 percent less than natives, while those from Australia and South Africa earn at least 30 percent more. These differences mirror the dispersion in skills across the populations of the source countries. Immigrants from countries that have abundant human capital and high average incomes tend to do better in the United States.

In view of the sizable skill differences across ethnic groups, it is not surprising that the changes induced by the 1965 amend-

## SOURCE OF LEGAL IMMIGRATION TO THE UNITED STATES

COUNTRY OF BIRTH	PERCENT DISTRIBUTION		
	1951-60	1971-80	1991-96
<b>EUROPE</b>	<b>52.7</b>	<b>17.8</b>	<b>14.5</b>
Germany	19.0	1.7	14.5
Greece	1.9	1.7	0.1
Ireland	1.9	0.3	0.9
Italy	7.4	2.9	0.2
Poland	0.4	0.8	2.1
United Kingdom	8.1	3.1	1.5
<b>ASIA</b>	<b>6.1</b>	<b>35.3</b>	<b>31.8</b>
China	0.4	2.8	4.4
India	0.1	3.7	3.9
Iran	1.0	1.0	1.3
Korea	0.2	6.0	1.9
Philippines	0.8	7.9	5.7
Vietnam	0.0	3.8	5.2
<b>AMERICAS</b>	<b>39.6</b>	<b>44.1</b>	<b>50.2</b>
Canada	15.0	3.8	1.5
Mexico	11.9	14.3	26.9
Cuba	3.1	5.9	1.5
Dominican Republic	0.4	3.3	4.2
Haiti	0.2	1.3	1.9
<b>AFRICA</b>	<b>0.6</b>	<b>1.8</b>	<b>3.4</b>
<b>AUSTRALIA</b>	<b>0.5</b>	<b>0.9</b>	<b>0.5</b>

ments explain the decline in the economic performance of successive immigrant waves. Put differently, there would not have been a decline in the relative skills and earnings of immigrants if the national origin mix of immigrants had remained the same.

This raises an important – and disturbing – issue. Because national origin and immigrant skills are so closely related, any attempt to change one will inevitably change the other.

**Immigration Harmed the Economic Opportunities of the Least-Skilled Natives.** Immigrants tend to cluster in a small number of cities and states. In 1998, almost three-quarters lived in six states (California, New York, Texas, Florida, New Jersey and Illinois), while only a third of the native-born lived in those states.

## EDUCATION AND WAGES OF IMMIGRANT MEN IN 1990

COUNTRY OF BIRTH	YEARS OF SCHOOLING	PERCENT WAGE DIFFERENTIAL BETWEEN IMMIGRANTS AND NATIVES
<b>EUROPE</b>		
Germany	13.9	24.5
Greece	11.8	-0.9
Italy	10.9	16.1
Poland	12.8	-0.3
Portugal	8.3	-3.1
U. S. S. R.	14.2	6.2
United Kingdom	14.6	37.2
<b>ASIA</b>		
Cambodia	10.2	-30.8
China	12.8	-21.3
India	15.9	17.6
Korea	14.3	-12.0
Laos	10.0	-32.4
Philippines	14.1	-5.9
Vietnam	12.3	-18.9
<b>AMERICAS</b>		
Canada	13.8	24.0
Cuba	11.7	-15.3
Dominican Republic	10.3	-29.2
El Salvador	8.6	-39.7
Haiti	11.2	-30.2
Jamaica	12.0	-11.2
Mexico	7.6	-39.5
<b>AFRICA</b>		
Egypt	15.6	12.2
Ethiopia	14.0	-21.0
Nigeria	15.8	-18.9
<b>AUSTRALIA</b>		
	15.2	33.0
<b>NATIVE-BORN WORKERS</b>	<b>13.2</b>	<b>—</b>

It is tempting to estimate the impact of immigration on native workers by comparing the wages of natives in cities with large numbers of immigrants (such as San Diego) with those of natives who reside in cities with few immigrants (such as Pittsburgh). These “spatial correlations” are, in fact, extremely weak. If one city has 10 percent more immigrants than another, the native wage in the city with more immigrants is just two-tenths of 1 percent lower.

However, it does not necessarily follow that immigrants have an inconsequential impact on the earnings of natives. Suppose, for example, that immigration into California lowers the earnings of natives in California substantially. Native workers are not likely to stand idly by and watch their economic opportunities evaporate. Many will leave California, and workers who were considering moving to California will move somewhere else. Native population flows diffuse the adverse impact of immigration on California over the entire economy. Thus, native workers in all parts of the country are made worse off by immigration – not simply those who live where immigrants cluster.

Between 1980 and 1995, immigration increased the number of workers without high school diplomas by 21 percent, while increasing the number with at least a high school diploma by only 4 percent. During that time, the wage of high school dropouts relative to that of more educated workers fell by 11 percentage points.

The disproportionate increase in workers at the bottom of the skill distribution probably caused half this observed drop. Thus, immigration seems to have been an important contributor to the rise in income inequality in the United States, depressing the economic opportunities of the least skilled.

**Immigration Had a Severe Fiscal Impact on the Affected States.** In 1970, immigrants were slightly less likely to receive public assistance than natives. By 1998, they had a much higher chance of receiving welfare: Almost a quarter of immigrant households received some type of assistance, compared to 15 percent of native households.

Two distinct factors account for this reversal. Because more recent immigrant waves are less skilled than earlier ones, it is not surprising that more recent immigrants are also

more likely to use welfare. What's more, the use of public assistance by immigrants increases over time. It seems that assimilation involves learning not only about labor market opportunities but also about the opportunities provided by the welfare state.

This trend, as well as the expense of providing immigrants with a host of public services – particularly education – has added a new and potentially explosive question to the immigration debate: do immigrants pay their way? A study by the National Academy of Sciences concluded that immigration in fact raised the taxes of the typical native household in California by about \$1,200 per year.

The welfare reform legislation enacted in 1996 gives states greater leeway in setting benefits. States receiving a high number of immigrants, such as California, have a huge incentive to join the race to the bottom as they attempt to shed the fiscal burden imposed by less-skilled workers.

**The (Measurable) Economic Gains from Immigration Are Small.** To see how natives gain from immigration, think about how the United States gains from foreign trade. When the United States imports toys made by low-wage Chinese labor, workers in the American toy industry suffer wage cuts and perhaps lose their jobs. These losses, however, are more than offset in dollar terms by the benefits to consumers who buy toys at lower prices.

By the same token, immigrants increase the number of workers. Because of the additional competition in the labor market, the wages of natives fall. At the same time, however, native-owned companies gain because they can now hire workers at lower wages. And many native consumers gain because lower labor costs lead to lower prices. As with foreign trade, the gains accruing to the persons who consume immigrant services exceed the losses suffered by native workers. Hence,

## WELFARE USE BY TYPE OF HOUSEHOLD, 1998

PERCENT RECEIVING SOME SORT OF ASSISTANCE

	NATIVES	IMMIGRANTS
<b>ALL HOUSEHOLDS</b>	<b>15.4</b>	<b>22.4</b>
Refugee households	—	28.5
Nonrefugee households	—	21.4
Households that do not contain any persons over age 65	15.5	20.6
Nonrefugee households that do not contain any persons over age 65	—	20.2

society as a whole is better off.

Although some claim that these gains from immigration are large, the facts are quite different. The annual net gain is a modest one-tenth of a percent of gross domestic product. In recent years this amounted to less than \$30 per person.

Immigration does more, however, than just increase the total income of natives. It also redistributes wealth away from workers who compete with immigrants and toward employers and other users of immigrant services. Workers lose – and employers gain – because immigrants drag wages down. The income transfers probably amount to tens of billions of dollars a year.

This suggests a different prism for viewing the immigration debate. Immigration works as an income redistribution program, a transfer from those who compete with immigrant workers to those who use immigrant services. The central issue in the debate over immigration policy, therefore, is not whether immigration increases the size of the economic pie. Rather, it is about how the pie is split.

Immigration may also benefit or harm the United States through what economists call externalities. Immigration can introduce new interactions among workers and companies,

and expose Americans to a variety of new products, such as ethnic cuisine. These benefits, however, are tempered by increased urban congestion and by a greater risk of ethnic conflict. Most externalities, moreover, are hard to measure, and the benefit or harm will often be in the eye of the beholder.

**Ethnic Skill Differentials May Persist for Three Generations.** In 1998, 11 percent of the United States population was “second generation” – born in the United States but with at least one foreign-born parent. By the year 2050, second-generation citizens will probably increase to 14 percent of the total population, and an additional 9 percent will be composed of the grandchildren of current immigrants. The economic impact of immigration thus depends not only on how immigrants adapt, but also on the adjustment of their offspring.

The experience of the children and grandchildren of the First Great Migration provides important lessons about the long-run consequences of immigration. That migration introduced substantial ethnic skill differentials into the United States: 97 percent of French immigrants knew how to read and write some language, as compared with 80 percent of Greek immigrants and 45 percent of Mexican immigrants.

These differences helped determine the economic performance of their children and grandchildren. A 20 percentage-point difference in literacy rates among two immigrant groups in 1910, for instance, led to a one-year difference in educational attainment in the second generation and a half-year difference in educational attainment in the third. Similarly, a 20-percent wage differential between two immigrant groups in 1910 led to a 12-percent wage differential in the second generation and a 5-percent wage differential in the third. About half of the average skill

differential between any two groups in the first generation persists into the second, and half of the remaining differential persists into the third.

The lesson is clear: Skill differentials among today’s immigrants lead to skill differentials in tomorrow’s ethnic groups. If history is any guide, national origin will indirectly determine the economic performance of the grandchildren of the Second Great Migration at the end of the 21st century. In short, ethnicity matters in economic life, and it matters for a very long time.

**Ethnic Spillovers Influence the Social Mobility of Immigrants.** The ethnic environment, which I call ethnic capital, influences the economic performance of children beyond the influence of their parents. Ethnic capital includes the culture, attitudes and economic opportunities nurtured by ethnic networks.

Ethnic capital reduces social mobility, making it less likely persons in disadvantaged ethnic groups will move up – and less likely persons in the advantaged ethnic groups will move down. Skill differences across ethnic groups persist across generations because continued exposure to local culture spills over and influences one’s life choices.

Thus, the skills of the second generation are affected not only by their parents’ skills, but also by the group’s mean education and wage. In fact, the impact of ethnic capital on social mobility may account for half of the persistence in skill differentials across generations.

**Ethnic Ghettos Incubate Ethnic Differences and Slow Down the Melting Pot.** The segregation of young African-Americans helped create the black underclass by depriving young people of positive role models and limiting their contact with economic opportunities. By the same token, the segregation of blacks

in poor neighborhoods feeds a vicious cycle that makes it all the more difficult to escape the ghetto.

There is also a great deal of residential segregation among other ethnic groups. Mexican-Americans live near other Mexican-Americans, Italian-Americans live near other Italian-Americans, and so on. Because few members of disadvantaged ethnic groups can afford to move, ethnic capital helps to perpetuate socioeconomic differences from generation to generation.

### THE GOALS OF IMMIGRATION POLICY

The Statue of Liberty originally had nothing to do with immigration – the French gave it to the American people as a representation of “Liberty Enlightening the World.” The symbol changed, however, once a plaque engraved with Emma Lazarus’s poem “The New Colossus” was attached to a wall inside the pedestal. Her call for “the huddled masses” and “the wretched refuse” transformed Miss Liberty into a shining beacon for migrants from around the world.

But many more people want to come to the United States than the country has been willing to allow. In November 1998, for example, the State Department was processing visa applications filed 20 years earlier by Filipino-born United States citizens who wanted to sponsor their siblings. These long queues, moreover, probably underrepresent the demand for entry visas. Millions more do not bother to apply because they know they cannot qualify under current regulations.

Consider the “diversity” lottery that the United States held annually in the 1990’s. Each year, some visas were made available to persons originating in “countries with low rates of immigration to the United States.” The 1997 lottery drew 3.4 million applications for the 50,000 available visas.

Few serious participants in the immigration debate advocate unregulated borders as the solution to this imbalance between the supply of entry visas and the demand. For almost everyone acknowledges that immigration policy must discriminate – I use the word in the old-fashioned sense of using good judgment – to allocate entry visas.

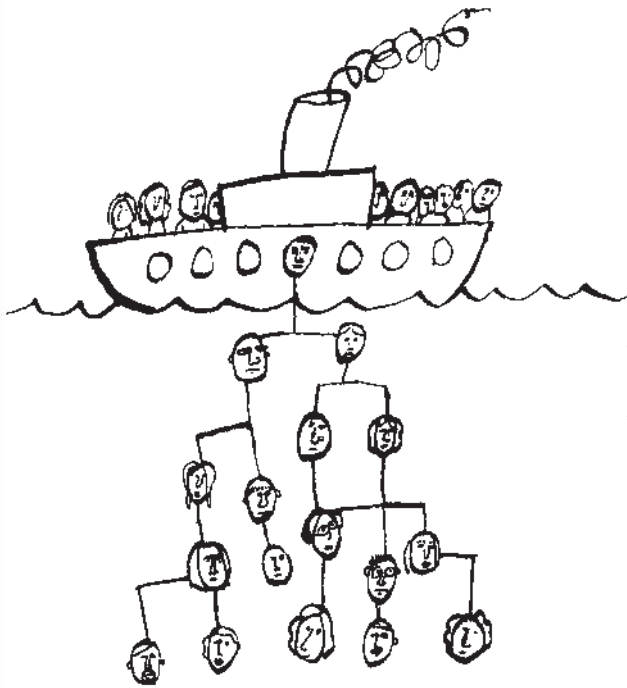
These rules for discrimination may stress family ties (as is currently done) or national origin (as used to be done) or socioeconomic

### RESIDENTIAL SEGREGATION FOR SELECTED ETHNIC GROUPS, 1979

ETHNIC ANCESTRY	ETHNIC GROUP'S SHARE OF THE POPULATION	PERCENT LIVING IN "ETHNIC" NEIGHBORHOOD
Black	14.9	79.4
Cuban	0.4	66.7
English	18.9	22.1
Filipino	0.4	20.5
German	17.4	28.4
Irish	11.0	18.7
Italian	6.2	49.6
Mexican	4.2	83.8
Other Hispanic	0.9	52.3
Polish	3.1	43.0
Portuguese	0.6	66.0
Puerto Rican	1.2	80.2
Russian	0.6	10.6
Scottish	1.5	35.2
<b>ALL GROUPS</b>	—	<b>48.0</b>

characteristics (as is done in other countries). It is useful to think of immigration policy as creating a formula that gives “points” to visa applicants on the basis of various characteristics and then sets a passing grade.

Since 1965 the formula has, for the most part, had only one variable: whether the applicant has a family member already residing in the United States. The post-1965 policy does not set strict restrictions on the number of immigrants. There are “pierceable caps” – numerical caps that are not really caps because they allow the number of visas to



expand with demand.

Admittedly, this is an overly simple summary of current policy. There are a lot of bells and whistles that make the immigration statutes almost as complicated as the Federal tax code and feed an army of immigration lawyers. Current policy, for instance, awards different numbers of points to applicants depending on whether the sponsor is a United States citizen or a permanent resident, on whether the family connection is close (a parent, spouse or child) or more distant (a sibling).

These nuances help determine the alacrity with which the visa is granted, with closer family connections leading to speedier entry. In addition, a limited number of visas are distributed on the basis of skills, but these select workers made up only 7 percent of immigrants in the early 1990's.

Although the United States does not admit to using a point system, other countries proudly advertise them. Canada, Australia and New Zealand use more complex formulas than the United States – formulas that include the applicant's educational background,

occupation, English-language proficiency and age, as well as family connections.

New Zealand's policy seems the most creative, using financial incentives to speed assimilation. New Zealand requires the "principal" immigrant in the household be proficient in the English language but allows this principal to bring in family members who are not. A family member who cannot pass the "English standard" at the time of entry has to post a bond of U.S.\$11,000. If he or she passes an English test within three months of arrival, the entire bond is refunded. If he or she fails this test at the three-month point but passes it within a year after arrival, the government refunds 80 percent.

Some countries "sell" visas. The United States allocates 10,000 entry visas annually for wealthy foreigners willing to create at least 10 full-time jobs in the United States by investing \$1 million. The "price" is reduced to \$500,000 if the investment is made in a high unemployment area. Think of the scheme as a system that allows immigrants to buy the requisite number of points for entry.

It seems, however, that the United States has set its admission price too high. In 1996, only 936 such visas (out of 10,000 available) were sold. Competition may explain the shortfall: Canada sells the entry visa for an investment commitment of just U.S. \$160,000.

Some people, particularly economists, would support an open market for visas – not just those sold under the investor program. If bread and butter can be traded in the open market, why not green cards?

A free market for visas would insure that those persons who most value the visas would get them. The visa market would thus maximize the combined gains accruing to those who immigrate and to the United States Treasury.

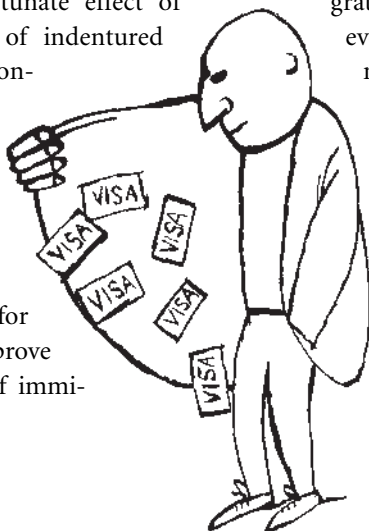
This market approach would solve a lot of the problems. It would create an impartial way to distribute the scarce entry visas. It would generate revenue for the government. And it would filter the applicant pool to insure that only those who valued entry the most would get into the country.

Selling visas, however, raises a number of problems. Many people would never be able to accumulate enough money to bid successfully in this marketplace. Indeed, most of our ancestors would have been unable to buy entry. Income in many developing countries is so low that most visa applicants would have to work several lifetimes to afford one.

This concern is serious, but not insurmountable. The price could be set as a percentage of the source country's average income. Suppose, for instance, that the United States set the price at twice the level of per capita G.D.P. This would mean French immigrants would pay \$53,000 for a visa, while Filipinos paid only \$2,000.

A more serious problem with an open market for visas is that it would not necessarily increase the skill level of the immigrant population. American employers who have much to gain from an increase in the number of less-skilled workers could help to finance immigrants with loans.

An open market for visas, therefore, might have the unfortunate effect of reintroducing a form of indentured servitude. But such contracts already exist informally between immigrants and their sponsors. By bringing them into the open and regulating them, an open market for visas might actually improve the living conditions of immi-



grants as they pay off the loans.

There would still be reasons to be concerned about the impact of immigration on less-skilled native workers and on expenditures for social services. However, the market could, in theory, handle these concerns. Before announcing the price for a visa, the government could calculate the net cost of admitting immigrants, including expenditures on public assistance programs and education, tax revenues, wage reductions suffered by native workers and so on. Washington would then set a price that reflected the net cost. And the revenue from selling visas could be redistributed to adversely affected workers and to the taxpayers who would bear the added fiscal burden.

Yet, despite the logical appeal and apparent benefits, the market approach does not seem to go far in the political debate. And for obvious reasons.

A free market for visas would bring a number of difficult moral issues into the open. Many persons (including me) feel that some things – life, liberty – should not be for sale. Similarly, the hard-fought rights granted by American citizenship should not be peddled in the market.

#### WHAT DO AMERICANS WANT?

It is quite difficult to figure out what immigration policy is in the national interest, even when one focuses solely on economic issues. For any immigration policy will leave both winners and losers, domestic and foreign, in its wake. The country has to decide whose well-being counts most. And in my view, although seldom saying so explicitly, most people think the United States should be concerned only with the economic well-being of the native

population.

Saying that the United States should design an immigration policy that benefits natives does not necessarily imply that natives are oblivious to what happens in other countries. For instance, the well-being of natives depends on having friendly neighbors. If Mexico were to become unfriendly, the cost of controlling the southern border would probably be far greater than the cost of admitting millions of less-skilled Mexican immigrants.

By admitting these immigrants, the United States gives Mexico a safety valve that relieves social and economic pressures. In the end, the United States should admit Mexican immigrants because it is in the narrow interests of American natives to do so.

By proposing that the country's welfare depends only on the well-being of the native population, it might seem that I am ignoring a basic lesson of American history. The United States, after all, is a nation of immigrants.

But throughout much of the past two centuries, the persons who inhabited America found it beneficial to open the borders. The land had to be tamed, the frontier had to be conquered and the railroads had to be built. This required far more labor than the small population of the young country could provide. So admitting the tired and the poor, though a noble gesture, also coincided with the selfish interests of natives. One can thus interpret the symbolism of the Statue of Liberty in a more cynical way: Give me your tired and your poor, *when the country needs them*.

**Efficiency Versus Equity.** Even if the country's social welfare depends only on the economic outcomes for the native population, there is one additional question to address. Which dimension of well-being matters most: average income or the distribution of

income? Immigration may raise the income of natives, but this does not mean all natives gain equally. Any evaluation of the impact of policy, therefore, must take into account both the size of the economic pie and how the pie is divided.

The evidence suggests that the net gains from immigration tend to be small, so it is doubtful these gains should determine the direction of immigration policy. The truly important economic impact is the change in the division of the pie. The immigration of less-skilled workers redistributes wealth from unskilled to skilled natives, from workers to owners of companies and from taxpayers who bear the burden of paying for the social services used by immigrants to consumers who use the goods and services produced by immigrants.

The political debate over whom to admit is thus best viewed as a tug-of-war between winners and losers. And this fact goes a long way toward explaining why some Americans favor the continued entry of large numbers of immigrants, while others favor a cutoff. Nonetheless, economists usually rank policy alternatives in terms of their effect on total income, with policies that lead to larger increases being considered better, regardless of who gets what.

One can rationalize this approach: A larger economic pie makes it possible to redistribute sufficient income from the winners to make everyone better off. But such redistribution seldom takes place. Those who gain from immigration typically keep the bulk of the gains, while those who lose are left to make do.

There is no objective way of determining what is most important to the nation's social welfare: efficiency or distribution. But in ignoring the fact that every policy change makes some people better off at the expense

of others, one misses the point of the political debate.

### **A PROPOSAL FOR AN IMMIGRATION POLICY**

Throughout the 1980's and 1990's, the United States annually admitted an average of 730,000 legal immigrants, 100,000 refugees and at least 200,000 illegal aliens. Many were relatively unskilled.

A strong case can be made that the social welfare of the United States would increase if the country adopted a policy favoring the entry of skilled workers. Consider first how the fiscal impact of immigration affects natives. Skilled immigrants earn more, pay higher taxes and require fewer social services than less-skilled immigrants. Thus, skilled immigration increases the after-tax income of natives, while the tax burden imposed by the immigration of less-skilled workers probably reduces natives' incomes.

The fiscal impact of skilled immigration also has desirable consequences on income distribution. Because the income tax is progressive, high-income workers pay a larger fraction of their income in taxes. So skilled immigration would lower the tax burden on less-skilled natives.

There is another side to this coin, though. Skilled native workers have much to gain from less-skilled immigrants. Immigrants complement the productivity of the native work force by taking on a variety of unwanted service jobs. Therefore, it would seem that the

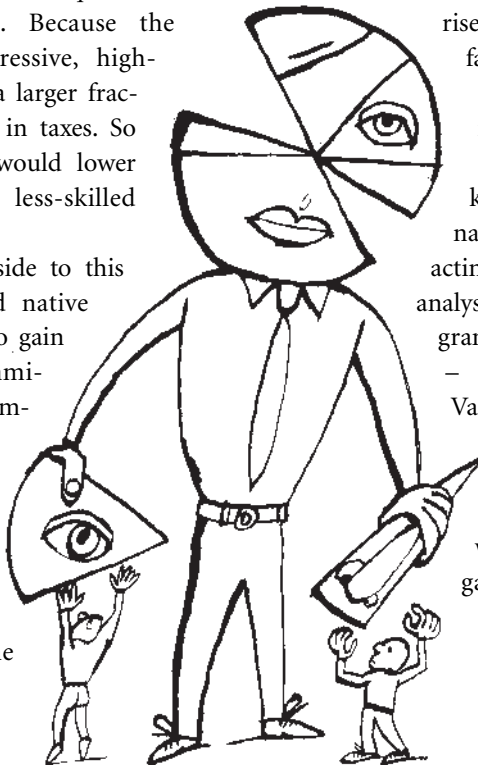
typical American worker would gain from unskilled immigration.

But that is not the end of the story. Immigration also affects the profits of native-owned firms. Companies that use less-skilled workers in production gain from the immigration of the less skilled. Other concerns, however, might be better off with skilled immigrants. In fact, studies suggest there is more "complementarity" between skilled labor and capital than between unskilled labor and capital. In other words, the machines now used become more productive when combined with skilled workers than with unskilled ones. Most companies, therefore, have more to gain from skilled immigrants.

In short, there is a conflict between the type of immigrant that the typical (relatively skilled) native worker favors and the type of immigrant that the typical company favors. But because the productivity of capital is very sensitive to inputs of skilled workers, total income in the United States would rise most if immigration policy favored the skilled.

The gains from skilled immigration can be even larger if immigrants bring knowledge and abilities that natives can pick up by interacting with immigrants. In fact, analyses of the impact of immigrants on particular industries – notably those in Silicon Valley – often stress such "externalities."

Note, too, that an influx of skilled workers would narrow the income gap between skilled and unskilled workers in the United States. On both



efficiency and distribution grounds, therefore, it would seem that social welfare increases most when the immigrants are skilled.

**The Point System.** In the past few decades, Australia, Canada and New Zealand have all adopted point systems that reward certain socioeconomic traits. In Canada, for example, a person who is 48 years old (my age) gets just 2 points out of a possible 10 and another 16 if he or she happens to have a doctoral degree. Further, he or she gets 1 point for being an economist (out of a possible 10 for occupational background), 8 points for having more than four years of work experience, 9 points for being fluent in English, 0 points for having no relatives in Canada (out of a possible five), and so on.

After all is said and done, this person – who is very much like me – would get 67 points. Unfortunately, the Canadian point system demands that a visa applicant get 70 points out of a possible 112, so I would be denied entry to Canada.

Any point system will lead to some inscrutable conclusions. A few hapless government bureaucrats must decide which characteristics will enter the admissions formula, which occupations are most beneficial, which age groups are to be favored, how many points to grant each desired characteristic and so on. In Canada, the list of occupations and the points granted to each occupation stretches through 10 pages. If I had been a social worker instead of a social scientist, I would have passed the test.

The point system also emphasizes easily observable characteristics. These characteristics may help determine productivity. But they are not the only things – in fact, they are not even the main things – that matter. Differences in education, age and occupation explain only about a third of the variation in earnings among United States workers.

Despite these limitations, a point system has two things going for it: It is simple, and it works. The Canadian point system really does match immigrant skills with labor market needs and reduces the fiscal burden that immigration places on Canada's generous system of public assistance.

The Canadian experience suggests that the United States, too, could increase the skill level of its immigrant population by adopting a point system that relies on a few socioeconomic characteristics. The formula could also award points to workers in "urgently needed" occupations, to applicants who have an American job offer before entry and to persons who already have relatives living in the United States. Family connections with United States residents would still matter, but they would no longer be the only thing that matters.

In 1997 the United States took some tentative steps toward using information about the economic potential of migrants in its immigration policy. Sponsors of new immigrants – typically family members who already live in the United States and want to bring in their relatives – must have a household income exceeding 125 percent of the poverty line. So a married couple with two children sponsoring the entry of two relatives must have an annual household income exceeding \$26,000.

This filter, however, links the entry visa to the sponsor's characteristics rather than the applicant's. It would be preferable to stress the economic potential of the immigrants themselves. After all, these are the people who will have the largest impact on the economic well-being of natives.

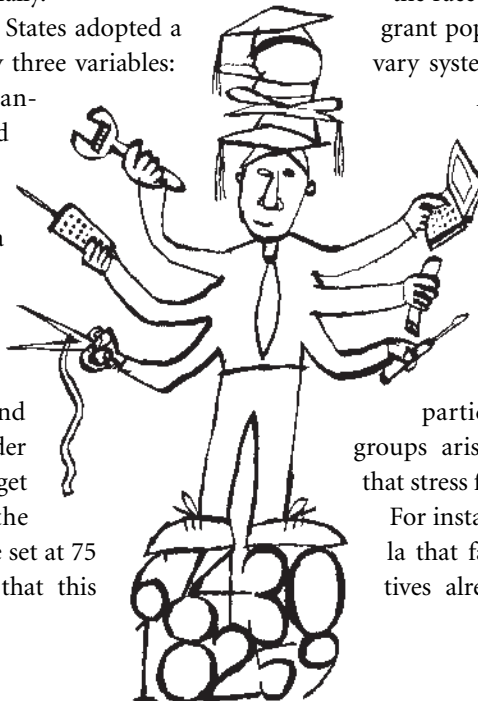
Finally, it is worth stressing that a point system addresses only the demand side of the immigration equation. In the end, the United States can admit only those immigrants who wish to enter. And for many reasons, includ-

ing the narrowing of the income gap between the United States and other industrialized countries, the United States largely attracts less-skilled workers from developing countries. If a skills-based point system were adopted, most visas would be granted to skilled workers – but the numbers granted would be relatively small.

I do not view this prospect as a flaw of the point system. It simply means that the types of workers the United States wants to “buy” are not available at the price the country is willing to offer. America could offer financial incentives to the immigrants it truly wants. Australia did for many years, reimbursing desired immigrants for the expense of getting there.

**National Origin and the Point System.** It is important to be candid about the way such a point system would actually work. In particular, one should not overlook the fact that a system emphasizing skills would have a huge impact on the national origin mix of the immigrants. Most likely, immigration from Mexico and some other developing countries would decline substantially.

Suppose the United States adopted a point system with only three variables: education, English language proficiency and age. Suppose persons who had at least a high school diploma would get 50 points; persons who were proficient in the English language would get 25 points; and persons who were under 40 years of age would get 25 points. Finally, the passing grade would be set at 75 points. Suppose, too, that this



point system had been in place in 1990.

About 40 percent of the immigrants who actually entered the country in the late 1980's would have failed this test. Even more striking, almost three-quarters of the Mexicans who entered the country would have failed to get visas, compared with 30 percent of Italians and 12 percent of Canadians. And even though Mexican immigrants made up for 18 percent of the actual immigrant flow in the late 1980's, they would have accounted for less than 8 percent if this point system had been in effect.

This exercise does not present the complete picture of the consequences. A point system would also change the applicant pool, encouraging more skilled persons to apply. Nevertheless, the system would have a disproportionate impact on applicants from developing countries, if only because a relatively small percentage of the population of those countries has completed high school.

Opponents of a skills-based point system would no doubt denounce it as inherently racist. But such an immigration policy affects the race and ethnicity of the immigrant population only because skills vary systematically across countries.

As long as the United States favored the admission of skilled workers, persons who originate in countries with abundant human capital – the rich, white countries – will be overrepresented. Moreover, bias toward particular national origin groups arises even in point systems that stress factors other than the skills. For instance, an admissions formula that favors applicants with relatives already in the United States

**EFFECT OF A HYPOTHETICAL POINT SYSTEM ON THE NATIONAL ORIGIN MIX OF THE 1985-1990 IMMIGRANT FLOW**

COUNTRY OF ORIGIN	PERCENT OF GROUP THAT FAILS THE TEST	PERCENT OF IMMIGRANTS ORIGINATING IN COUNTRY
<b>ALL COUNTRIES</b>	<b>40.7</b>	<b>—</b>
<b>EUROPE</b>		
France	7.4	0.6
Germany	14.4	0.6
Greece	30.6	0.3
Ireland	9.6	0.7
Italy	29.5	0.5
Portugal	70.1	0.5
United Kingdom	6.2	0.6
<b>AMERICAS</b>		
Canada	12.2	1.8
Cuba	66.6	1.1
Dominican Republic	58.4	2.0
El Salvador	77.0	2.9
Haiti	54.1	1.2
Mexico	74.6	18.4
Nicaragua	56.6	1.7
<b>ASIA</b>		
China	42.9	4.7
India	18.8	3.9
Korea	29.3	3.9
Vietnam	62.5	2.7
Philippines	15.0	5.8

gives an advantage to ethnic groups that have recently migrated. In 1990, only 15,000 adult immigrants had been born in Bangladesh (with nearly 130 million inhabitants), and fewer than 200 adult immigrants had been born in the Democratic Republic of the Congo (with about 50 million inhabitants).

**The Point System and Immigrant-Dependent Industries.** It is often claimed that some domestic industries would cease to exist – or at least would have to change radically – if immigration did not provide a continuing supply of cheap workers. For example, nearly two-thirds of farm workers in the United States and 90 percent of those in California are foreign-born.

The debate over the expansion of the H-1B (“high-tech”) temporary visa program in 1998 illustrates the economic issues at stake.

Employers of software programmers and engineers insisted that their industries were plagued by chronic shortages that could be alleviated only by an increased supply of foreign-born “high-tech braceros.” Workers already employed in those industries responded that the labor shortage was a figment of their employers’ imaginations – one conjured to increase the supply of workers so that the companies could pay lower wages. Before 1998, the United States annually granted 65,000 temporary visas to high-tech workers. The debate ended with Congress voting to increase the number to about 115,000 annually for three years.

A skills-based point system along with a substantial cut in illegal immigration would obviously have a disproportionate effect on some industries, notably agriculture. In principle, one could soften the impact by granting additional points to “urgently needed” workers with specific skills. Before such exemptions are routinely granted, however, one should consider whether the exemptions improve social welfare.

In 1776 Adam Smith warned that “people of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public or in some contrivance to raise prices.” And the warning is still relevant.

Trade groups like to claim that their industries face serious labor shortages and that the shortages can be eliminated only by bringing in more workers. It is certainly the case that agriculture could not survive as it is currently structured in the wake of the reforms I favor. But it is worth asking a different question: does it make sense for the United States, a country with a relative abundance of skilled labor, to be in the business of growing hand-harvested fruits and vegetables?

The economic law of comparative advan-

tage shows that some goods are best produced abroad and imported. Even putting aside this reality, one could still argue that what is good for the employers need not be good for the country. For instance, agricultural companies that hire seasonal workers in California ignore the fact that the immigrants impose a burden on the native population during the off-season. Although some of the immigrants return home after the harvest, many remain to increase the demand for social services.

Immigrant-dependent industries would surely adapt to a different economic environment. Some companies would turn to capital-intensive technologies that allowed them to remain competitive. Consumers would also adapt: If California oranges became too expensive, they could buy their juice from Brazil – or switch to apple cider.

**How Many Immigrants?** Though the evidence on the economic impact of immigration provides a clear road map for thinking about who should be admitted, it provides little guidance for deciding how many. The policies regulating immigration let in almost one million immigrants annually during the 1980's and 1990's, not counting political refugees. Is one million too many or too few?

It is tempting to interpret the current emotional debate over immigration as a sign that the United States is admitting too many. The symptoms of dissatisfaction include majority support for California's Proposition 187, which denied government benefits to illegal aliens, and the welfare reform legislation of 1996, which made it more difficult for legal immigrants to qualify for public assistance. However, one can also interpret these signs as a response to the perception that the United States is admitting the wrong type rather than the wrong number of immigrants.

An alternative way of posing the question

is to imagine a contrary situation. What would be the nature of public discourse if the immigrants were one million highly skilled workers? I think the United States would still be in the midst of a debate, and perhaps an even more heated one. After all, skilled immigration would have substantial consequences for well-heeled constituencies.

Suppose the United States were to admit only college graduates, and this policy were to remain in effect for two decades. By the year 2020 roughly 15 million skilled workers would have been added to the work force (assuming that 75 percent were working). Now, there were roughly 30 million college graduates working in the country in 1998. So the policy would increase the supply of college graduates by 50 percent. And the available evidence suggests that a 50 percent increase in the supply of skilled labor would reduce the average wage of college graduates by 15 percent.

The negative impact doesn't end there. The reduction in relative wages would probably affect college enrollment. If a change in immigration policy were to cut the return to college by 15 percent, the available evidence suggests a reduction in enrollment by between 15 to 30 percent.

Moreover, disadvantaged native students would probably be most sensitive to the decline in the returns to college, and their enrollment rates would probably drop the most. These are the students, after all, who can least afford college in the first place. So even though some narrowing of the wage gap may be desirable, a large narrowing may not. And, in my view, a 15 percent cut in the salary of college-educated workers would be sufficiently large to be worrisome.

Choosing the magic number of skilled workers is bound to be a painful process of trial and error. A good place to start might be

to let in 500,000 legal immigrants per year – roughly the number recommended by the Commission for Immigration Reform and a one-third cut from the number of legal immigrants admitted during the 1980's and 1990's. This also happens to be the average number of immigrants who entered the United States during the 1970's, a period of relatively high immigration when the political debate focused on the perceived problem of illegal entry.

It makes little sense to create a policy that cannot respond to changes in economic conditions. The number of immigrants that maximizes social welfare is probably smaller when the economy is weak and larger when it is strong. The point system, therefore, should take account of macroeconomic conditions. For example, when the economy is near full employment, 500,000 entry visas could be awarded. The number of visas might decline to 450,000 if unemployment rose to 7 percent, and so on.

**Illegal Aliens.** Five million illegal aliens lived in the United States in 1996. Their numbers grow by about 300,000 per year. And these figures are on top of the three million illegal aliens who were granted amnesty in the late 1980's.

The common perception of an illegal alien is of someone who crossed the border without permission. The Immigration and Naturalization Service refers to these persons as E.W.I.s, for "entry without inspection." The stereotypical E.W.I. is a Mexican who walked across. Many illegal aliens, however, had legal student or tourist visas when they first entered but remained after their visas expired. Illegal aliens, therefore, come from many places. Almost half of the illegal-alien population is from countries without a common border with the United States.

The United States attracts illegals for many

reasons. Average income in the United States is at least three times larger than in Mexico. Even after netting out the cost of getting to the United States border, the income differential between the two countries remains a potent incentive to move.

Second, few penalties are imposed on the illegal aliens who are caught. They are simply put on the first plane or bus going back home. And once home, they are free to try to re-enter the United States whenever the opportunity arises.

Third, even though it is illegal for employers to "knowingly hire" undocumented aliens, the chances of getting caught are negligible and the penalties are trivial. Newly hired workers must offer proof that they are United States citizens or permanent legal residents or that they have work visas. Employers then complete forms for each new employee certifying that the relevant documents were reviewed.

The statutes, however, have a huge loophole: the employer is not required to keep copies of these documents. Hence, there is practically no chance of detecting employers who decide to hire illegal aliens after "reviewing" patently phony work credentials.

Finally, the United States does a poor job of controlling its borders. The reasons are understandable. Although the number of agents in the Border Patrol rose from about 3,000 in 1990 to nearly 10,000 in 1998, the Mexican-United States border is 1,950 miles long.

A number of highly publicized Border Patrol operations in the mid-1990's attempted to curtail illegal immigration with a round-the-clock police presence in stretches that illegal aliens typically used to cross. These operations seem to have been effective in the targeted areas, but some of the illegal aliens eventually entered by crossing in less

heavily patrolled places. Indeed, a study commissioned by the governments of Mexico and the U.S. concluded that “the United States border enforcement strategies begun in 1994 are affecting migration patterns, but not preventing unauthorized entry.”

Moreover, tighter controls on the border do not address the problem of how to curtail the number of aliens overstaying their visas. They account for about half of the illegal aliens in the United States.

Any serious reform of immigration policy and any attempt to adopt a skills-based point system are doomed unless the problem of illegal immigration is also resolved. Both the morality and the political legitimacy of immigration restrictions come into question if one can get to the front of the queue by breaking the law.

Note, too, that illegal immigration may be the cause of substantial social and ethnic conflict, particularly in California where voters enacted Proposition 187 in 1994. This denied many locally provided benefits, including education, to illegal aliens.

Proposition 187, in fact, raises fundamental questions about how far the United States can or should go in controlling the illegal-alien flow. Much has been made, for instance, of the rights and wrongs in denying a public education to the children of illegal aliens. Supporters of Proposition 187 argued that illegal immigration has lowered the quality of education in California schools and that a ban on educating undocumented children would reduce the incentive for illegals to

**ILLEGAL IMMIGRATION  
IN THE UNITED STATES  
OCTOBER, 1996**

NUMBER OF ILLEGAL ALIENS	
<b>TOTAL</b>	<b>5,000,000</b>
<b>“TOP FIVE” COUNTRIES OF ORIGIN</b>	
Mexico	2,700,000
El Salvador	335,000
Guatemala	165,000
Canada	120,000
Haiti	105,000
<b>“TOP FIVE” STATES OF RESIDENCE</b>	
California	2,000,000
Texas	700,000
New York	540,000
Florida	350,000
Illinois	290,000

come. After all, if illegal aliens respond to changes in wages for tomato pickers, they would surely respond to the cut in education benefits.

Opponents of Prop 187 argued that it is morally wrong to kick children out of school and that, in any case, it makes economic sense to educate illegal aliens. Preventing illegals from getting a high school diploma today will only buy the United States

more poverty, welfare and crime tomorrow.

Putting the moral issues aside, barring illegal aliens from public schools simply may not be an effective way of stopping the flow. Many of the children who live in households headed by illegal aliens were born in the United States and are American citizens, courtesy of the 14th Amendment. Thus, the denial of public education affects a relatively small part of the illegal population, and, in any case, would probably not deter the migration of single persons and childless couples.

The United States could probably deter many more illegal aliens by imposing substantial penalties on the employers who hire them. These employers – large farms and sweatshops, as well as native households that hire illegal aliens as maids or nannies – get the bulk of the gains from illegal immigration but bear few of the costs. The demand for illegal aliens would probably drop drastically if the government began to bill the owners of the fields where the aliens toil and the families who hire illegal servants for the extra expenses incurred by public schools and Medicaid.

There should also be penalties exacted on the illegal aliens themselves. Some want illegal

aliens sent to detention centers, so that they can pay for their crime through incarceration. But it is very expensive to keep people in jail. If every apprehended illegal alien (there were 1.6 million of them in 1996) were forced to spend two weeks in a federal prison, the annual bill would be around \$1.3 billion – assuming no prisons had to be built.

One alternative might be to punish the illegal aliens by hitting them where it hurts the most, in the pocketbook. Federal law, for example, routinely allows the confiscation of property used by drug dealers in their illegal business activities. By analogy, aliens could be fined for their illegal activities through the confiscation of their assets before deportation. The assets reverting to the United States Treasury might include the right to collect Social Security benefits.

These penalties would probably drive the economic activities of illegal aliens further underground. But the financial penalties – if accompanied by a strong effort at apprehending the aliens – could trim the economic benefits associated with migrating to the United States.

Ultimately, any serious attempt to resolve the illegal alien problem faces a crucial obstacle. There must be a simple way of determining who is an illegal alien and who is not. After all, it is unreasonable to increase the penalties on employers who hire illegal aliens if it is difficult for employers to determine their legal status. But Washington has yet to grapple with this troublesome reality because it raises the specter of a national identification system.

Most Americans have a libertarian streak that leads them to reject the notion of carrying a proof of residence for potential employers. Yet most Americans carry credit cards that are scanned, and transactions are recorded by credit agencies. However one feels

about such breaches of privacy, the basic dilemma is clear: the illegal alien problem will remain as long as the United States skirts the question of how to identify who is a legal resident and who is not.

Finally, one might encourage the parties involved in the immigration debate to take illegal immigration more seriously by linking the numbers admitted legally to the estimated size of the illegal flow. Suppose the United States were to adopt a system that granted 500,000 legal visas each year. These slots would become more valuable if the government reduced the number of legal visas available to offset illegal immigration on a one-for-one basis. If, for example, the I.N.S. reported that 200,000 illegal aliens had entered the country, only 300,000 legal visas would be granted the following year.

This toll on legal immigration would introduce a number of important incentives for enforcement. First, it would make the country aware of the magnitude of illegal immigration. Second, it would give companies that employ immigrants something to lose in opposing reasonable constraints on illegal immigration. Finally, it would give the legal immigrant community a strong incentive to stop the illegal-alien flow, since each illegal alien who entered the country would make it that much harder for the relatives of United States residents to enter.

**Refugees.** Persons seeking refuge from political oppression have a very strong moral claim to entry. And although there have been some glaring exceptions, the United States has taken this responsibility seriously in recent decades. The President (in consultation with Congress) sets an annual limit on the number of refugees granted admission and determines how these visas will be distributed. In 1996, the ceiling was 90,000, with 25,000 visas granted to East Asia and 45,000 to Eastern

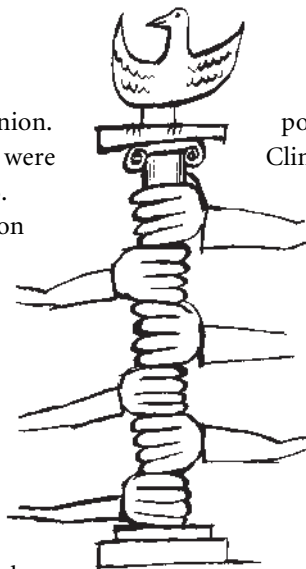
Europe and the former Soviet Union. Nearly 1.8 million refugees were admitted between 1980 and 1996.

Participants in the immigration debate have seldom disagreed over the country's obligation to refugees. Nevertheless, there is an unresolved operational question in refugee policy, a question that is likely to play an ever-larger role in the debate: Who is a refugee?

Were the Mariel boat people from Cuba fleeing political oppression or poor economic conditions in 1980? Why were they considered refugees and welcomed with open arms, while Haitians fleeing equally oppressive economic conditions were denied refugee status?

Despite the humanitarian veneer on most discussions of refugee policy, it is safe to conclude that the determination of refugee status mostly reflects the objectives of American foreign policy and the influence of domestic political interests. Before 1980, the United States defined a refugee as a person fleeing a communist country, a communist-dominated area or the Middle East. The Refugee Act of 1980 redefined a refugee as someone who is residing outside his or her country of nationality and who is unable or unwilling to return because of a "well-founded fear of persecution on account of race, religion, nationality, membership in a particular social group or political opinion."

A good example of how the post-1980 definition adjusts to the changing political winds occurred in 1995. Before that time, persons fleeing the communist regime in Cuba were automatically granted asylum once they reached the United States. To reduce the chances of a new boatlift that would have devastating effects on Florida's



political landscape, President Clinton reversed this decades-long policy by proclaiming that Cuban citizens would no longer receive preferential treatment in their applications for asylum.

Admission as a refugee has certain advantages. Persons who do not have relatives in the United States and do not qualify for employment-based visas find that refugee status offers the only route to legal entry. Second, refugees are entitled to an array of social services unavailable to other immigrants – and sometimes even to natives.

In 1995, the Office of Refugee Resettlement spent almost \$400 million providing cash, medical assistance, English language training and employment-related services to refugees.

The United States should continue its tradition of offering sanctuary to those in need. Nevertheless, there are two issues worth keeping in mind. The evidence indicates that refugees are very likely to be enrolled in welfare programs. After 10 years in the United States, 16 percent of Vietnamese refugees, 24 percent of Cambodian refugees and 34 percent of Laotian refugees were still receiving public assistance. Moreover, the refugees' exceptional use of welfare cannot be attributed solely to differences in socioeconomic characteristics, such as education and household composition. I think it would make sense to eliminate this particular benefit and simply provide the same types of assistance given to other immigrants in similar economic circumstances.

The more important issue is the definition of a refugee. There was little discussion of what constituted a refugee during the cold

war: the United States automatically offered sanctuary to all fleeing communist regimes. However, this consensus collapsed with the Soviet Union, and the operational meaning of refugee is now up for grabs. In the 1990's, the debate took an ominous turn by introducing differences in cultural norms.

Consider, for example, the debate over whether women who live in cultures that permit genital mutilation qualify for refugee status. An immigration tribunal in the United States eventually granted asylum to one such woman who had fled her homeland to escape the ritual. But the ruling raises a fundamental question: are people who live in societies that allow conduct abhorrent to most Americans entitled to asylum? And if so, how offensive must the conduct be to qualify? For instance, do families residing in countries where the children are sent to work at the age of 10 make the cut?

Broad definitions of what constitutes a refugee are ripe for abuse and could be used to award refugee status to millions of persons who are now subjected to all manner of offensive behavior. The danger is that the looser the definition of refugee status, the harder it becomes to maintain the political legitimacy of programs that aid refugees. And the harder it becomes to give refuge to those who need it most.

## **CONCLUSION**

The First Great Migration that began around 1880 and ended abruptly in 1924 was an exceptional event. Never before had such a large population movement occurred over such long distances and in so short a period. Remarkably, it took less than a century for history to repeat itself. The Second Great Migration began at the end of the 1960's and has yet to subside. By the time the 21st century begins, almost 30 million persons will have

arrived on this wave.

The United States is only beginning to feel the consequences. Regardless of how immigration policy changes in the future, the Second Great Migration has already set in motion a series of events that will alter the social and economic structure of the United States, not only in our generation but for our children and grandchildren as well.

For better or worse, economic issues often frame the immigration debate. And the weapons of choice in this debate are economic statistics and analysis. Will this evidence influence the direction of the immigration debate? Should it?

Yes, and yes. The evidence suggests that Americans would be better off if immigrants were more skilled. And it can be plausibly argued that a smaller number of immigrants would be beneficial for the country. But major changes in immigration policy occur only rarely. Therefore, the road ahead is long and fraught with dangers.

The adverse effects of the Second Great Migration will not go away simply because some do not wish to acknowledge their existence. But the longer the delay in reform, the greater the chances that when immigration policy finally is changed, it will undergo a destructive shift. That shift may give a victory to those who advocate closing the border, denying Americans the benefits of a well-designed immigration policy.

That would be extremely unfortunate. Immigration has blessed the United States throughout much of its history. If one goes back far enough, every country is a nation of immigrants. But the United States is unique in this regard. No other nation has offered such a beacon of hope to tens of millions of persons from around the world. And nowhere has this beacon shone so brightly for so long. **M**