

REBOOTING THE AMERICAN DREAM

THE ROLE OF IMMIGRATION IN A 21ST CENTURY ECONOMY



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I. Why Do We Need to Revisit Employment-Based Immigration?

The World has Changed, but the Immigration System has Not

There is plenty of evidence that immigration helps to fuel the U.S. economy, just as it has throughout our history. Immigrants continue to play an important role in the economy as workers, entrepreneurs, taxpayers, and consumers. However, most observers agree that our current immigration system is outdated and dysfunctional, making it more difficult for the U.S. to compete in the global marketplace. The last time Congress made significant changes to the employment-based immigration system was 1990, when the Immigration Act of 1990 created the five-tiered employment-based immigration system and the numerical limits used today.¹¹ The entire immigration system hasn't been overhauled since 1965 and, as some observers have noted, over the last few decades "piecemeal fixes have turned current law into a web of outmoded, contradictory and inefficient quotas, rules, and regulations."¹²

While the world has changed significantly since 1990, our employment-based immigration system has remained static, impervious to changing economic, political, and social conditions. Many policymakers agree that our current legal immigration flow is drastically out of sync with America's labor needs and global realities. However, Congress has failed to pass necessary immigration reforms, opting instead to put more resources into enforcing current laws and removing increasing numbers of immigrants from the country. Edward Alden of the Council on Foreign Relations has characterized the U.S.'s failure to reform the immigration system as "national suicide."¹³

If the U.S. is to thrive in the globalized 21st century economy, employment-based immigration must be seen as a strategic resource that can both meet labor market needs and foster economic growth and competition, while still protecting U.S. workers and improving wages and working conditions.

Our Current Laws Don't Reflect Our Economic Needs

The Immigration Act of 1990 raised the annual ceiling on employment-based immigration from 56,000 to 140,000 and created five employment-based immigration preferences. The number was set years ago by Congress, without regard to real labor-market needs, and has not been updated to conform to evolving economic realities. This 140,000 includes the immigrants, plus their eligible spouses and minor children, which means that the actual number of workers receiving green cards is much lower.

People who wish to come to the United States on an employment-based visa, and who fit into one of the employment categories, must have a job offer in the United States and an employer willing to sponsor him or her—a process that can be very expensive and time consuming. Most of the qualifying professions are high-skilled and require advanced levels of education, targeting professionals like scientists, professors, and multinational executives. Because of the numerical limitations, some foreign workers and their employers must wait up to 10 years for a green card to become available. More than one million high-skilled immigrants are waiting for an employment-based green card; their applications have been approved, but it will take years for a visa to become available because of the numerical limitations created in the 1990 law.

Bureaucratic Delays Add to the Problem

Despite the high demand and backlogs in some categories, the numerical limits within other preference categories are not reached each year. Observers of this trend argue that the failure to reach the cap is not about available talent, but about the rules of the system. For example, the EB-1 category for “priority workers, including immigrants with extraordinary ability in the sciences, arts, education, business, or athletics” has seen visas go unused because of a lack of clarity over what constitutes “extraordinary ability.”¹⁴

The Lack of Visas for Certain Workers Contributes to Illegal Immigration

The current visa allocation system leaves few visas for less-skilled workers. The types of jobs most associated with unauthorized immigrants are the least likely to qualify for work visas. Each year, the number of green cards available for less-skilled workers—such as hotel workers, landscapers, and construction workers—is limited to just 5,000 for the entire United States. The inflexible and insufficient number of green cards available for these types of jobs is at the heart of the unauthorized immigration problem.

The Temporary Visa System is Inadequate

In addition to green cards, U.S. immigration law provides for a wide variety of temporary visas for foreign workers. Temporary employment visas allow employers to hire foreign nationals to work in a specific job for a limited time period. In some cases, temporary workers can adjust to permanent resident status, but in other cases, they cannot. Some temporary visas, such as the H-2A visa for agricultural workers, are uncapped. The H-1B visa for highly skilled immigrants is capped at 65,000 visas per year, with 20,000 additional visas for foreign professionals who graduate with a Masters or Doctorate from a U.S. university. All of these visas are generally used every year. In some years, the limit has been reached on the first day the visas are made available, although the recent recession has slowed the demand to the point that the cap was reached after four months in Fiscal Year (FY) 2011.¹⁵ Because of the high demand for H-1Bs in the past, U.S. Citizenship and Immigration Services (USCIS) instituted a computer-generated random selection process to select petitions from among all of the petitions received.

More Flexibility is Needed in the Immigration System

This permanent-temporary visa dichotomy is often not in the best interests of employers or workers. Some employers may need permanent workers to fill permanent jobs; others may require temporary workers to fill transitory gaps in certain industries or during particular seasons. In some cases, employers may only be able to obtain visas for temporary workers when they actually need permanent workers. Workers who arrive on temporary visas may find permanent jobs, but are unable to adjust to a permanent visa under the current system. In other words, the current system does not have the flexibility needed to respond to the country's evolving economic needs.

II. Is the U.S. Still Attracting the Best and Brightest?

In a global marketplace in which highly skilled immigrants are in demand, immigrants can choose the country that provides the greatest opportunity for themselves and their families. While job availability, wages, and working conditions are important, other factors such as the amount of red tape and bureaucracy, the ability to bring spouses and children, the ability to adjust from a temporary visa to a permanent visa, and the ability to change jobs are also crucial to decision-making.

More Countries are Competing for International Talent

Some countries have revised their immigration laws to make themselves more attractive to highly skilled workers. Canada and the United Kingdom created a “point system” to attract highly skilled immigrants, with mixed results. While it is not yet finalized, the European Union (EU) has proposed a “Blue Card” system to make the EU a player on the emerging global labor market, enhancing its competitiveness and luring highly skilled workers to Europe—and away from countries like the United States and Australia.¹⁶

Some immigrant-sending countries are implementing policies to persuade their own best and brightest to remain in the country while also attracting those from other nations.¹⁷ In 2009, immigrants from India and China comprised 22% of Legal Permanent Residents (LPRs) who entered the U.S. through the employment-based system.¹⁸ But in the last 15 years, China has successfully encouraged more than 4,000 Chinese researchers to return to China. In January 2009, China launched the One-Thousand-Talents Program to attract Chinese and other “high caliber” researchers to China. India has developed similar programs to attract highly skilled scientists and researchers.¹⁹ Even Japan, which has been resistant to immigration in the past, has announced plans to increase the number of foreign-born students to 300,000 by 2020. They also plan to simplify the immigration process, hire more English-language teachers, and help foreign students find jobs within the country.²⁰

Foreign Students at American Colleges Don’t Like the Odds

Vivek Wadhwa and AnnaLee Saxenian interviewed 1,000 foreign students at American universities in 2008 and found that only six percent of Indians and 10 percent of Chinese students said they planned to remain in the U.S. Three quarters of the students said they feared they couldn’t get a visa. According to Wadhwa, “the U.S. is experiencing a brain drain for the first time in its history, yet its leaders do not appear to be aware of this.”²¹

Talented Immigrants are Starting Businesses in Other Countries

The most recent report to shed light on this issue is from the Kauffman Foundation, which released *The Grass is Indeed Greener in India and China for Returnee Entrepreneurs*.²² In this report, Wadhwa and his colleagues from Duke, Harvard, and UC Berkeley looked into the fact that highly educated and skilled immigrants are “voting with their feet” and returning to their home countries, where they start successful businesses. The authors estimate that tens of thousands of skilled immigrants are returning to their home countries every year, and the trend is accelerating.²³

Wadhwa and his fellow researchers interviewed nearly 300 returnees in India and China who had started their own businesses. They found that the U.S.’s outdated immigration system is part of the reason these returnees went back home. More than one million skilled immigrants and their families are stuck in a backlog, waiting for their green cards.²⁴ They might have been educated here and worked here for a few years, but they cannot change jobs or be promoted because their visa indicates a specific job. And without the certainty of permanent residency, they are in immigration limbo.

However, the most significant factors in the decision to return home were career opportunities, family ties, and quality of life. The immigrants surveyed wanted to start businesses within five years, and they felt their home country provided the best opportunity to do so. In fact, 72% of Indian and 81% of Chinese returnees said the opportunities to start their own businesses were better or much better in their home countries than in the U.S.²⁵ Lower operating costs, access to local markets, and business networks were among the advantages in India and China. According to the authors, “Innovation that would otherwise be happening here is going abroad. Without realizing it, we are exporting our prosperity and strengthening our competitors.”²⁶

Given the right conditions, many of these immigrant entrepreneurs might have decided to stay in the U.S. to start their businesses, hiring U.S. workers and paying U.S. taxes. As *New York Times* op-ed columnist Thomas L. Friedman asked in a column on February 10, 2009, “in an age when attracting the first-round intellectual draft choices from around the world is *the* most important competitive advantage a knowledge economy can have, why would we add barriers against such brainpower—anywhere?”²⁷

III. Why Is Immigrant Labor Important in Today's Economy?

Immigrants and Economic Growth Go Hand in Hand

Overall, research shows that immigration levels are positively correlated with economic output and growth. For example, the Fiscal Policy Institute studied the top 25 metropolitan areas in the U.S. and found that economic growth of metropolitan areas and growth in the immigrant share of the workforce were closely connected. In the period studied, from 1990 to 2006, Phoenix, Dallas, and Houston saw the fastest growth in immigrant share of the labor force and had well above average economic growth. The three metropolitan areas with the slowest economic growth—Cleveland, Pittsburgh, and Detroit—had among the smallest increases in immigrant share of the labor force.²⁸

Economists estimate that the overall benefit of immigration is small, but positive—between 0.1% and 0.3% of gross domestic product (GDP).²⁹ Immigration is also associated with a small but positive increase in native workers' real income.³⁰

Immigrant Workers Complement U.S. Workers

Immigrants add to the number of workers, which makes the economy larger and increases GDP. Moreover, immigrant workers tend to be concentrated at the top and the bottom of the educational scale, while most Americans fall somewhere in the middle. Because of this disparity, researchers have generally found that immigrant and U.S. workers complement each other, rather than compete with each other, which spurs economic growth. According to a report from the Federal Reserve Bank of Dallas, "There would be no economic gains to immigration for natives if immigrants were clones of natives or, in economic jargon, perfect substitutes. Differences can create complementarities, with immigrant workers making natives better off."³¹

In 1950, 64% of U.S. workers lacked a high-school diploma. Today, less than 10% have not completed high school. Immigrants now make up nearly half of the workers in the U.S. who do not have a high-school degree (which is a small part of the entire U.S. labor force).³² As a result, immigrants are more likely than U.S.-born workers to work in lower-wage service or blue-collar jobs. In the 25 largest metropolitan areas, 21% of immigrants work in service occupations, compared to 13% of U.S.-born workers. About 30% of immigrants work in blue-collar occupations, while 17% of U.S.-born workers are in these jobs.³³

Immigrants “Fill in the Gaps,” Providing Talent in High-Growth Areas

When it comes to post-college education, the proportion of immigrants with degrees increases. Immigrants make up 16% of workers with a master’s degree, 17% of those with a professional degree, and 27% of those with doctoral degrees.³⁴ Similarly, on the high-skilled end of the job market, immigrants play an important role, “complement[ing] high-skilled native workers by flowing into fast-growing fields where native labor supply cannot keep up.”³⁵ On average, immigrants make up 15.5% of the high-skilled labor force. They make up 45% of medical scientists and 37% of computer programmers and have a large presence in medicine, engineering, higher education, accounting, nursing, and architecture.³⁶ A December 2008 study released by the Harvard Business School found that immigrants comprise nearly half of all scientists and engineers in the United States who have a doctorate, and accounted for 67 percent of the increase in the U.S. science and engineering workforce between 1995 and 2006.³⁷

Of course, immigration’s effect on employment, income, and productivity varies by occupation, job, and industry. Overall, the research has shown that over time, businesses make adjustments that allow them to take full advantage of the immigrant labor supply. The net impact of immigration is to expand the U.S. economy’s productive capacity, stimulate investment, and promote specialization that in the long run boosts productivity.³⁸

Immigrant Workers Generate Ripple Effects that Create Jobs throughout the Economy

Economist Giovanni Peri provides a useful example in the construction industry:

As young immigrants with low levels of education take manually intensive construction jobs, the construction companies that employ them have opportunities to expand. This increases the demand for construction supervisors, coordinators, designers, and so on. Those are occupations with greater communication intensity and are typically staffed by U.S.-born workers who have moved away from manual construction jobs. This complementary task specialization typically pushes U.S. born workers toward better paying jobs, enhances the efficiency of production, and creates jobs.³⁹

This may take some years to be fully realized, but in the long run, the result is a net positive for everyone.

And there is no evidence that this happens at the expense of wages for native workers. In fact, a February 2010 report from the Economic Policy Institute (EPI) finds that the “effect of immigration from 1994 to 2007 was to raise the wages of U.S.-born workers, relative to foreign-born workers, by 0.4% (or \$3.68 per week).” Even the small (and shrinking) number of “U.S.-

born workers with less than a high school education saw a relative 0.3% increase in wages (or \$1.58 per week)” as a result of immigration during this period.⁴⁰

The EPI report also confirms what other scholars have noted—that “new workers do not just have supply-side impacts, they also affect demand.” New workers “buy food and cars and pay rent. In other words, while new workers add to the supply of labor, they also consume goods and services, creating more jobs. An economy with more people does not mean lower wages and higher unemployment, it is simply a bigger economy.”⁴¹

Temporary Workers Contribute to Job Growth as Well

For example, a March 2008 study by the National Foundation for American Policy (NFAP) found that, among technology companies in the Standard & Poor’s (S&P) 500, there is “a positive and statistically significant association” between the number of H-1B positions requested by employers between 2001 and 2005, and the percentage change in *total* employment of those employers one year later. According to the NFAP, “for every H-1B position requested, U.S. technology companies increase their employment by 5 workers,” on average, the following year. For technology companies with *fewer* than 5,000 employees, “each H-1B position requested in labor condition applications was associated with an increase of employment of 7.5 workers.”⁴²

This suggests that the U.S. labor market’s demand for H-1B workers expands and contracts with the demand for highly skilled workers in general, and that the presence in a company of highly skilled foreign workers—whose abilities and talents *complement*, rather than substitute for, those of native-born workers—*creates* new employment opportunities for American workers.

Immigrants Will Help to Refill the Talent Pool as Baby Boomers Retire

According to demographer Dowell Myers:

...the ratio of seniors (age 65 and older) to working-age adults (25 to 64) will soar by 67 percent between 2010 and 2030. The rapid rise in the senior ratio will precipitate not only fiscal crises in the Social Security and Medicare systems, but workforce losses due to mass retirements that will drive labor-force growth perilously low. Immigrants and their children will help to fill these jobs and support the rising number of seniors economically. At the same time, immigrant homebuyers are also crucial in buying homes from the increasing number of older Americans. Immigrants will clearly be important in leading us out of the current housing downturn.⁴³

The National Academy of Sciences concludes that immigration will become increasingly important in maintaining the U.S. science and engineering labor force as more and more native-born workers retire. According to a 2010 report by the National Science Board, “absent changes

in degree production, retirement patterns, or immigration, the number of S&E-trained workers in the labor force will continue to grow for some time, but the growth rate may slow considerably as an increasing proportion of the S&E labor force reaches traditional retirement age.”⁴⁴

The Independent Task Force on U.S. Immigration Policy found that, in contrast to Europe and Japan, immigration to the United States has “largely maintained what would otherwise be a shrinking population of working-age adults, a huge economic advantage for” the country.⁴⁵ The Task Force concluded that, although “immigration will not substantially arrest the aging of the American population, openness to immigration means that the United States will face fewer of the economic and social pressures that will mount as a growing number of Americans retire and are supported by a smaller working-age population.”⁴⁶

According to a 2007 study from the Peterson Institute of International Economics, the skill levels of U.S. workers are stagnating relative to the rest of the world. As a result, “when American baby boomers retire, they will take as many skills with them as their children will bring into the U.S. workforce.”⁴⁷ In order to overcome these challenges, the United States will not only have to implement new educational policies to produce more high-skilled Americans, but also “reform its high-skilled immigration policies and procedures not only to welcome the best and the brightest but also to make it easier for them to stay.”⁴⁸

IV. Are Immigrants Contributing to U.S. Innovation and Growth?

While most Americans acknowledge the important contributions immigrants have made historically, today's economic uncertainties and high unemployment levels have caused some to question the value of immigration. However, there is no doubt that immigrants contribute to U.S. economic growth, job creation, entrepreneurship, and innovation.

Immigrants are More Likely to Start Businesses

Entrepreneurship is an important engine of job creation and economic growth, and many researchers have shown that immigrants are more likely than natives to start their own businesses. A June 2011 report from the Partnership for a New American Economy found that more than 40% of the 2010 Fortune 500 companies were founded by immigrants or their children, and the newest Fortune 500 companies are more likely to have an immigrant founder.⁴⁹ Together these companies—including Kraft Foods, Nordstrom, RadioShack, Cigna, and General Dynamics—employ more than 10 million people worldwide and have combined revenues of \$4.2 trillion.⁵⁰

A September 2010 report from the Hamilton Project of the Brookings Institution notes that immigrants “are 30 percent more likely to form new businesses than U.S.-born citizens.”⁵¹ According to a 2011 report from the Kauffman Foundation, “immigrants were more than twice as likely to start businesses each month than were the native-born in 2010.”⁵² Among immigrants, 620 out of 100,000 people started a business each month, compared with 280 out of 100,000 native-born. The immigrant share of new entrepreneurs is 29.5 percent, which is up from 13.4 percent in 1996.⁵³ The Fiscal Policy Institute found that immigrants account for 22% of proprietors' earnings in the 25 largest metropolitan areas, which is slightly higher than their share of the population.⁵⁴

Many of these immigrant entrepreneurs are operating within high-tech industries. A May 2008 study concluded that one-quarter of all engineering and technology-related companies founded in the United States from 1995 to 2005 “had at least one immigrant key founder,” and that these companies “produced \$52 billion in sales and employed 450,000 workers in 2005.” Moreover, these immigrant-founded firms have “contributed greatly to the country's economic growth over time.”⁵⁵

Immigrants Bring Innovation and Ideas to Business

Another measure of immigrant innovation is the number of patents which are issued to immigrants. A September 2010 report by the Hamilton Project of the Brookings Institution notes that “among people with advanced degrees, immigrants are three times more likely to file patents than U.S.-born citizens.”⁵⁶ A 2008 report by researchers at McGill University and Princeton University found that “immigrants patent at double the native rate, and that this is entirely accounted for by their disproportionately holding degrees in science and engineering.”⁵⁷ Immigrants with bachelor’s degrees were granted patents at twice the rate of native-born Americans with bachelor’s degrees, and the difference was three times higher when comparing those with graduate degrees.⁵⁸

Researchers have similarly found a direct correlation between increases in the number of H-1B visas and patent applications.⁵⁹ According to a December 2008 Harvard Business School study, the H-1B visa program for highly skilled foreign professionals “has played an important role in U.S. innovation patterns” over the past 15 years. This is evidenced by the fact that the number of inventions, as measured by patents, has increased when H-1B caps are higher due to “the direct contributions of immigrant inventors.”

The benefits of these patents extend to native-born American researchers and scientists. For example, there is evidence that foreign-born and American-born scientists are benefiting from and building off of each other’s work. The increased number of patents received by immigrants coincides with an increase in the number of patents awarded to native-born Americans, thus increasing the overall innovative capacity of the U.S.⁶⁰ A May 2005 World Bank report found that “both international graduate students and skilled immigrants have a significant and positive impact on future patent applications as well as on future patents awarded to university and non-university institutions. The study found that a ten-percent increase in the number of foreign graduate students would raise patent applications by 4.7 percent, university patent grants by 5.3 percent and non-university patent grants by 6.7 percent.”⁶¹

V. Must Family-Based Immigration be Reduced to Improve Employment-Based Immigration?

Many people incorrectly assume that only employment-based immigrants contribute economically to the U.S. As a result, employment-based and family-based immigrants are sometimes pitted against one another in policy debates. The argument is that the U.S. must prioritize skills and education over family relationships if our immigration system is to contribute to economic growth. However, it is important to remember that immigrants who arrive through the family-based system also make important economic contributions.

Family-Based Immigrants Work and Contribute to the Economy

Family-based immigrants contribute to the economy in several ways: having their families reunited in the U.S. boosts the productivity of employment-based immigrants working in the U.S. because they no longer have to deal with the separation from their loved ones; and immigrants who arrive through family reunification are workers and innovators themselves. As Professor Harriet Duleep said when she testified before the House Subcommittee on Immigration,

On the surface, employment-based immigrants appear to be more valuable to the U.S. economy than family-based immigrants because of their relatively high earnings and because their occupational skills respond to the current needs of particular industries. Yet, because of their high propensity to invest in human capital, kinship-based immigrants provide the U.S. economy a highly malleable resource that promotes a vibrant economy in the long run.⁶²

While they may not be admitted to the U.S. to perform a specific job, family-based immigrants do contribute directly and indirectly to the workforce. Research has found that family-based immigrants who work may have low initial earnings, but their wages quickly rise, which is the opposite of employment-based immigrants who begin with high earnings, but experience little earning growth.⁶³ This high earnings growth is associated with high rates of schooling, training, and occupational change. This means that family-based immigrants have a high propensity to invest in their own human capital. They may arrive in the U.S. with few U.S.-specific skills, and *precisely because* they lack specific skills, they have an incentive to learn new skills, and they have greater flexibility to adapt to changing skill needs in the economy.⁶⁴

Famous Immigrant Entrepreneurs Came as Family-Based Immigrants

Many of the immigrants we associate with financial success and entrepreneurial spirit actually immigrated to the U.S. through their family relationships, not their skills. For example, Sergey Brin, the founder of Google, moved to the U.S. with his mathematician parents when he was six years old. Similarly, Pierre Omidyar, the founder of eBay, was born in Paris to Iranian parents and arrived in the U.S. as a young child. Jerry Yang, founder of Yahoo, came to the U.S. at age 10 with his family. While their parents may have come to the U.S. for employment purposes or because of their skills, Brin, Omidyar, and Yang were the beneficiaries of family relationships.

Family-Based Immigration Fosters Innovation and Entrepreneurship

According to data from the Small Business Administration, immigrant women in particular are one of the fastest-growing segments of small business owners in the United States.⁶⁵ There is significant research showing that close family relationships facilitate entrepreneurship because families can provide important resources, such as support in caring for children and working in family-owned businesses. Broad family linkages are critical because they provide immigrants with the “social capital” to pool financial resources and to start and manage a wide range of small- and medium-sized businesses that would otherwise not be economically viable.⁶⁶ These businesses range from “mom-and-pop” outfits like grocery stores and restaurants to larger enterprises such as community banks, clinics, supermarkets, and food-manufacturing operations.

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