The U.S. Immigration System: Potential Benefits of Reform

Michael Greenstone, Adam Looney, and Harrison Marks
MISSION STATEMENT

The Hamilton Project seeks to advance America’s promise of opportunity, prosperity, and growth.

We believe that today’s increasingly competitive global economy demands public policy ideas commensurate with the challenges of the 21st Century. The Project’s economic strategy reflects a judgment that long-term prosperity is best achieved by fostering economic growth and broad participation in that growth, by enhancing individual economic security, and by embracing a role for effective government in making needed public investments.

Our strategy calls for combining public investment, a secure social safety net, and fiscal discipline. In that framework, the Project puts forward innovative proposals from leading economic thinkers — based on credible evidence and experience, not ideology or doctrine — to introduce new and effective policy options into the national debate.

The Project is named after Alexander Hamilton, the nation’s first Treasury Secretary, who laid the foundation for the modern American economy. Hamilton stood for sound fiscal policy, believed that broad-based opportunity for advancement would drive American economic growth, and recognized that “prudent aids and encouragements on the part of government” are necessary to enhance and guide market forces. The guiding principles of the Project remain consistent with these views.
The U.S. Immigration System: Potential Benefits of Reform

The United States is a nation of immigrants. Throughout U.S. history, immigrants have settled the country, contributed to America’s intellectual environment, vibrant culture, national defense, and economic productivity, and so much more. For years, U.S. immigration policy has fulfilled many goals by reuniting Americans with their families from abroad, providing safe harbor for the persecuted from around the world, enriching economic activity, and, ultimately, strengthening our quality of life, academic excellence, culture, and society.

Even as immigration to the United States continues to rise after a midcentury dip (see Figure 1), most agree that America’s immigration policy has failed to keep up with changing circumstances. The current system does not meet U.S. economic needs, no longer reflects the historic humanitarian goal of reuniting families set out in the landmark 1965 Immigration and Nationality Act, undermines the confidence of Americans in the rule of law, and has produced divisive and fragmented policy responses at the state level.

The aforementioned concerns are considerable, and they are being raised at a time when our nation continues its recovery from the Great Recession and attention remains rightly focused on the unemployment rate and the need for economic improvement. For these reasons, The Hamilton Project has focused its attention on the economic effects of immigration—and, specifically, the often-misunderstood facts underpinning the debate (see Greenstone and Looney 2010).

Practically, the system for processing both temporary and permanent visas is characterized by long lines and inequities. Economically, current policies limit the gains that the country could garner from the employment-based immigration of workers with needed skills. And fiscally, the burden of caring for and educating immigrants and their children falls disproportionately on certain communities. All of these factors point to a system badly in need of update and reform.

The Hamilton Project believes that an improved immigration system could raise the well-being of all U.S. citizens. This framing memo provides background information on the state of the current immigration system and the potential benefits of reform in order to inform the policy discussion.

The Challenge

New arrivals and American citizens alike have much to gain from a twenty-first-century immigration policy. While there are many ways in which both immigrants and U.S.-born citizens benefit from immigration, few are as stark as the fact that when a non-European college-educated immigrant moves from her native country to the United States, her annual productivity and compensation leaps by $57,000 (Peri 2012). This gain accrues not only to the immigrant and her family, but also to the businesses that hire her, to local businesses where she spends her money, to consumers who purchase her goods and services, and to taxpayers who will face lower costs over time. The economic output from immigrants contributes to the overall economy and is just one of the potential gains that could be reaped from

**Figure 1.**

U.S. Foreign-Born Population

a coherent immigration system designed to serve the needs of American families, workers, and businesses.

But the current system prevents us from achieving those gains for a variety of reasons. One challenge is pragmatic: the current system is complicated, onerous, and unfair. Dozens of visa types clutter the system, meaning that there is no one clear path to entry. Quotas and other rules create bottlenecks for certain types of immigrants, which can lead to decades-long waits for visas.

A second challenge arises because of concerns and misconceptions about how immigrants affect the U.S. economy, and particularly the opportunities of American workers, which has led to skepticism regarding the desirability of immigration. These perceptions contrast with the available evidence, which suggests that, on average, immigrants raise the incomes of Americans. There are legitimate concerns about how immigrants affect local communities, particularly in terms of their unequal impacts on different state and local budgets. However, in principle, this problem could be mitigated with a greater sharing of resources between the federal government and state and local governments. Other countries have recognized the benefits of economically sound immigration policies, and have oriented policies toward promoting economic gains at home. If the immigration debate in the United States were depolarized, then the benefits of better immigration policies could be better understood, and the problem addressed.

Today’s U.S. Immigration System
America’s current immigration system attempts to fulfill many different, overlapping, and changing goals, but lacks an overarching theme. Rather, it is a complex and inefficient patchwork that represents years of piecing together unrelated components into a whole that is less than the sum of its parts. In the broadest sense, the system for allowing noncitizens into the United States can be divided into permanent and temporary admissions. The permanent residence system is primarily focused on family reunification, with ancillary categories for certain workers, and for refugees and others seeking asylum. In total, the United States issues roughly 1 million permanent residence visas, or “green cards,” each year. Family-based visas account for roughly two-thirds of all permanent visas allotted in an average year. Just 14 percent of all permanent visas in 2010 were employment-based.

In addition to the permanent residence system, approximately 1.5 million temporary visas are issued to temporary workers, students, and people on cultural exchanges across a dizzying set of categories (see Figure 2). (It is interesting to note that the byzantine temporary visa system even includes an entire visa category, H-1B3, solely for fashion models, though this specific category is not a significant concern on its own.) Most workers on temporary visas will work hard to establish ties to this country. Some will be educated in American institutions...
and receive U.S. government dollars to do research. But despite spending years or even decades living and working in the United States, no temporary visa includes an automatic path to a permanent residence visa or to citizenship.

The sheer complexity of the current U.S. immigration system imposes many unnecessary costs on American businesses, citizens, and potential immigrants. The costs of employing legal services for help in navigating the system can total in the thousands of dollars per visa; this is but one measure of the unnecessary waste generated by the current system.

Many of the larger costs of this complicated system cannot be monetized. For instance, country-specific quotas within a certain subcategory of visas mean that in order for a Philippines-based sibling of an adult U.S. citizen to be eligible for a green card in May of 2012, she would have had to file a petition before February of 1989—a wait time of more than twenty-three years (Figure 3). For instance, with the exception of spouses and parents, no adult family relation from anywhere in the world has a wait time of less than seven years. Created in part by an overly complicated classification system and exacerbated by country-specific quotas for individuals from certain countries, these wait times compromise family reunification—a cornerstone of U.S. immigration policy since 1965—and are counter to values that are important to the social fabric of the United States.

Visa wait times and the surrounding red tape also frustrate potential employers of immigrants. These problems, along with limited employment-based visa quotas, lead many American businesses to argue that they are not able to find the workers necessary for their operations. Furthermore, the current approach to immigration is not well-connected to the skills that the labor market demands. Indeed, many top businesspeople have testified that our immigration policies drive away the world’s best and brightest precisely when they are needed most. The entire annual cap for high-skilled temporary work visas, H-1Bs, has been filled in as little as two days in recent years (GAO 2011). The system functions on a first-come, first-served basis. Companies in need of workers with specific skills that are in short supply among U.S.-born citizens have been required to wait up to 364 days for the next H-1B availabilities.

The process for bringing low-skilled workers into the United States is similarly burdensome. Before being allowed to hire foreign workers using the H-2A temporary work visa for seasonal agricultural workers, current regulations stipulate that a company must advertise its job availabilities in three separate locations. Additionally, the advertisements must remain posted through one-half of the entire contract period (DOL 2009). Such burdens have limited the use of this category of visa, but not the necessity of hiring seasonal workers.

Many of the potential immigrants who enter the country without documentation or who overstay short-term visas form a labor pool that employers in need of low-skilled labor are wont to tap. Roughly 300,000 undocumented immigrants entered this country each year between 2007 and 2009 (Passel and Cohn 2010), and the total undocumented foreign-

---

**Figure 3.**

Visa Wait Times for Family Members of U.S. Citizens, in Years

![Graph showing visa wait times for family members of U.S. citizens](image)

Source: State Department (2012).
born population in the United States is approximately 11.5 million (DHS 2012a). Estimates suggest that 50 to 70 percent
of manual labor in the agricultural sector is performed by undocumented immigrants (Sequeira 2011).

The United States has an immigration system that has been patched together without a clear vision. The result is great
complexity that imposes excessive burdens on immigrants, families, and businesses, leaving many potential benefits
unrealized.

**Immigration and the Labor Market**
Concerns about how immigrants affect the labor market and economic activity are a source of discontent with
immigration—concerns that appear to be grounded more in fear than in fact. A common misconception is that immigrants
take jobs from U.S.-born workers and drive down wages, particularly in low-skill industries. However, an examination
of the economic evidence suggests that immigrants, on average, raise living standards for American citizens (see
Greenstone and Looney 2010).

There is less of a consensus regarding how immigrants affect the distribution of wages. Some estimates suggest that
immigrants raise wages across the board, while others find that immigrants improve wages for some workers and reduce them
for others. This evidence, summarized in Figure 4, juxtaposes two opposing views. One set of estimates (Ottaviano and Peri
2008) suggests that immigrants generally complement the skills of American workers and businesses, increasing their
productivity on the job and raising their wages (blue bars). For instance, unskilled immigrant construction workers increase
the productivity of relatively more-skilled supervisors; increases in immigrant labor in household services have facilitated greater labor-market participation of women; and immigrant farm-workers allow farmers to increase the
yields and productivity of their farms. In these cases, by complementing Americans skills and resources, immigrants
have raised wages and incomes for Americans.

A contrasting view is that immigrants compete for certain American jobs, reducing wages within certain groups while
raising wages elsewhere (purple bars). For instance, Ottaviano
and Peri find that the framework laid out in Borjas and Katz
(2007) suggests that average wages between 1990 to 2006
for American workers without high school degrees were 4.7
percent lower due to immigration. Nevertheless, this and
other evidence suggest that immigration does not lower the
wages of Americans, and instead may raise wages in the
aggregate (Card 2005; Ottaviano and Peri 2008). The evidence
also indicates that immigrants contribute to the well-being of
Americans indirectly by increasing the accessibility of certain
goods and services and by reducing the prices of those services
(Cortes 2008).

Highly-educated immigrants, in particular, are likely to
be important contributors to U.S. innovation, since their
contributions may have spillover benefits for the rest of the
economy. Immigrants were key founders of 39 percent of the
engineering and technology companies started in California

---

**FIGURE 4.**
Effect of Immigration on Wages of U.S.-Born Workers

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than HS graduates</td>
<td>-6%</td>
<td>-6%</td>
</tr>
<tr>
<td>HS graduates</td>
<td>30%</td>
<td>30%</td>
</tr>
<tr>
<td>Some college</td>
<td>30%</td>
<td>30%</td>
</tr>
<tr>
<td>College graduates</td>
<td>33%</td>
<td>33%</td>
</tr>
<tr>
<td>All U.S.-born workers</td>
<td>33%</td>
<td>33%</td>
</tr>
</tbody>
</table>

Source: Ottaviano and Peri (2008), Table 7; 2011 CPS.
Note: Share of U.S.-born population ages 25-64, numbers may not sum to 100 due to rounding.
between 1995 and 2005, and of more than 25 percent of the engineering and technology companies founded nationwide during those same years. In 2005, these companies produced $52 billion in sales and employed 450,000 workers nationwide (Wadwha 2007). Our high-skilled immigrants make important contributions to U.S. innovation, patenting at high rates. By one estimate, patent activity by high-skilled immigrants in the 1990s increased U.S. GDP per capita by 1.4–2.4 percent, or $481–$825 per person (Hunt and Gauthier-Loiselle 2010).

It is noteworthy that other countries appear aware of these benefits and have designed their immigration policies to encourage higher-skilled immigrants. For instance, Australia, Canada, and New Zealand use points-based systems to screen potential immigrants. In their systems, points are awarded to potential immigrants for a positive work history, an advanced degree, skills in a high-demand industry, and other factors such as age or language ability. The perceived advantage of points-based systems is that they encourage or accommodate certain characteristics of immigrants believed to contribute positively to economic, cultural, or social life.

But the disadvantage, particularly for employment-based visas, is that the points assigned by the regulatory or legislative authority may have little to do with the changing needs of employers. A more flexible approach would measure demand for certain skills or attributes on a continuous basis, and reserve visas for those immigrants with the greatest likelihood of contributing in terms of economic productivity.

### Immigration and the Budget

A final economic concern commonly voiced about immigration is that immigrants burden public finances and taxpayers. A look at the economic evidence suggests that although immigrants utilize American public services such as schools, hospitals, and means-tested programs, the total lifetime taxes that they and their descendants contribute exceed the benefits they receive (Hanson 2005). In fact, according to the Social Security Administration Trustees’ report, increases in immigration have improved Social Security’s finances. Second-generation immigrants tend to be particularly large contributors to Social Security (Board of Trustees 2010). Figure 5 compares the taxes paid and expenditures consumed by the children of immigrants and by the children of U.S.-born citizens over their lifetimes.

In contrast, individual states present a mixed picture based largely on the geographic settlement patterns of immigrant populations (see Figure 6). The governmental costs associated with immigrants arise primarily because of the costs of educating and caring for the children of immigrants—costs that fall largely on state and local governments. At the same time, the fiscal benefits of immigration generally arise from federal income and payroll taxes, which accrue to taxpayers across the country. As a result, states receiving a disproportionate share of immigrants face a larger net fiscal burden across federal, state, and local governments. For example, a 1997 National Academy of Sciences study found that the average native household in California bore a cost of $1,178 in 1995 due to immigrants, whereas the
U.S. average household bore a cost of roughly $200 (Smith and Edmonston 1997). Given that (on net and over their lifetimes) immigrants generally contribute more in taxes than they receive in benefits, one way to remedy the unfair distribution of costs for immigrants would be to offset the costs to heavily impacted states using the aggregate gains that accrue elsewhere. This would also serve to decrease some of the political tension surrounding the immigration issue in many states.

A Rational Approach to Immigration Reform

In his Hamilton Project discussion paper, “Rationalizing U.S. Immigration Policy: Reforms for Simplicity, Fairness, and Economic Growth,” Giovanni Peri of the University of California, Davis, puts forward one approach to immigration reform that is more able to meet the needs of potential immigrants and their U.S. family members, of employers who would like to hire foreign workers, and of the American economy. Peri proposes using a market-based auction system to allocate existing temporary employment-based visas, arguing that such a system would match visas to employers with the greatest demand for immigrant labor. In this system, an employer would pay a fee through an auction system to hire a foreign-borne worker and would sponsor that worker for a visa. Revenues from the auctions could be used to establish and maintain the system and to compensate the state and local governments that have the largest fiscal burdens from immigration.

Later phases of the proposal expand this system beyond temporary employment-based visas, simplify visa categories, create a direct path from temporary visas to permanent immigration, eliminate the country quotas, and call for an expansion of opportunities for employment-based immigration to the U.S. The proposal preserves family reunification for nuclear families, but shifts away from extended-family reunification. However, family networks are important for finding employment, and many family members would more quickly and easily be able to enter the U.S. through the expanded employment-based system. Finally, Peri suggests increased enforcement efforts and an approach to dealing with undocumented workers that can be implemented in tandem with the other reforms. Each phase of the proposal aims to improve on the previous system, culminating in a system that is easier to operate and simpler to navigate for both employers and foreign-born workers, and increases the economic benefits of employment-based immigration for the U.S. economy.

Conclusion

As America faces a rapidly changing global environment, it requires an immigration system able to promote shared gains for both American workers and immigrants. With the right reforms, the immigration system could increase immigration’s social and economic benefits to the American economy and workforce, while being fair to Americans, to immigrants, and to taxpayers.

Immigrants have strengthened America throughout its history. But the current system is broken. It does not fulfill its humanitarian purpose of reuniting families, and it is ill-equipped to help the United States navigate the global economy of the twenty-first century. The current system has been cobbled together through a series of haphazard and unrelated policies. If the United States is to remain competitive, our policymaking must rise above contentious political fights and build an immigration system that once again serves the needs of American families and businesses.
Acknowledgments

The authors thank Karen Anderson, David Dreyer, and Meeghan Prunty for innumerable insightful comments and discussions. They are also grateful to Dmitri Koustas and Karen Li for outstanding research assistance, and to Kristina Gerken and Kaitlyn Golden for help at many stages of producing this paper.
ADVISORY COUNCIL

GEORGE A. AKERLOF
Koshland Professor of Economics
University of California at Berkeley

ROGER C. ALTMAN
Founder & Chairman
Evercore Partners

ALAN S. BLINDER
Gordon S. Rentschler Memorial Professor of Economics & Public Affairs
Princeton University

TIMOTHY C. COLLINS
Senior Managing Director & Chief Executive Officer
Ripplewood Holding, LLC

JONATHAN COSLET
Senior Partner & Chief Investment Officer
TPG Capital, L.P.

ROBERT CUMBY
Professor of Economics
Georgetown University

JOHN DEUTCH
Institute Professor
Massachusetts Institute of Technology

KAREN DYAN
Vice President & Co-Director of Economic Studies
Senior Fellow, The Brookings Institution

CHRISTOPHER EDLEY, JR.
Dean and Professor, Boalt School of Law
University of California, Berkeley

BLAIR W. EFFRON
Founding Partner
Centerview Partners LLC

JUDY FEDER
Professor & Former Dean
Georgetown Public Policy Institute
Georgetown University

ROLAND FRYER
Robert M. Beren Professor of Economics
Harvard University and CEO, EdLabs

MARK T. GALLOGLY
Cofounder & Managing Principal
Centerbridge Partners

TED GAYER
Senior Fellow & Co-Director of Economic Studies
The Brookings Institution

RICHARD GEPHARDT
President & Chief Executive Officer
Gephardt Group Government Affairs

ROBERT GREENSTEIN
Executive Director
Center on Budget and Policy Priorities

CHUCK HAGEL
Distinguished Professor
Georgetown University
Former U.S. Senator

GLENN H. HUTCHINS
Co-Founder
Silver Lake

JIM JOHNSON
Vice Chairman
Perseus LLC

LAWRENCE F. KATZ
Elisabeth Allison Professor of Economics
Harvard University

MARK MCKINNON
Global Vice Chair
Hill + Knowlton Strategies

ERIC MINDICH
Chief Executive Officer
Eton Park Capital Management

SUZANNE NORA JOHNSON
Former Vice Chairman
Goldman Sachs Group, Inc.

PETER ORSZAG
Vice Chairman of Global Banking
Citigroup, Inc.

RICHARD PERRY
Chief Executive Officer
Perry Capital

PENNY PRUNTY
Founder, Chairman & Chief Executive Officer
PSP Capital

MEEGHAN PRUNTY
Senior Advisor
The Hamilton Project

ROBERT D. REISCHAUER
President Emeritus
The Urban Institute

ALICE M. RIVLIN
Senior Fellow, The Brookings Institution
Professor of Public Policy
Georgetown University

DAVID M. RUBENSTEIN
Co-Founder & Managing Director
The Carlyle Group

ROBERT E. RUBIN
Co-Chair, Council on Foreign Relations
Former U.S. Treasury Secretary

LESLEY B. SAMUELS
Senior Partner
Clery Gottlieb Steen & Hamilton LLP

SHERYL SANDBERG
Chief Operating Officer
Facebook

RALPH L. SCHLOSSTEIN
President & Chief Executive Officer
Evercore Partners

ERIC SCHMIT
Executive Chairman
Google Inc.

ERIC SCHWARTZ
76 West Holdings

THOMAS F. STEYER
Senior Managing Member
Farallon Capital Management

LAWRENCE SUMMERS
Charles W. Eliot University Professor
Harvard University

LAURA D’ANDREA TYSON
S.K. and Angela Chan Professor of Global Management
Haas School of Business
University of California, Berkeley

MICHAEL GREENSTONE
Director
Visa Wait Times for Family Members of U.S. Citizens, in Years

The sheer complexity of the current U.S. immigration system imposes many unnecessary costs on American businesses, citizens, and potential immigrants. For instance, with the exception of spouses and parents, no adult family relation from anywhere in the world has a wait time of less than seven years.