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Article

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IZA World of Labor

Provided in Cooperation with:

IZA – Institute of Labor Economics

Suggested Citation: Zavodny, Madeline (2015) : Should countries auction immigrant visas?, IZA World of Labor, ISSN 2054-9571, Institute for the Study of Labor (IZA), Bonn, <https://doi.org/10.15185/izawol.202>

This Version is available at:

<https://hdl.handle.net/10419/125425>

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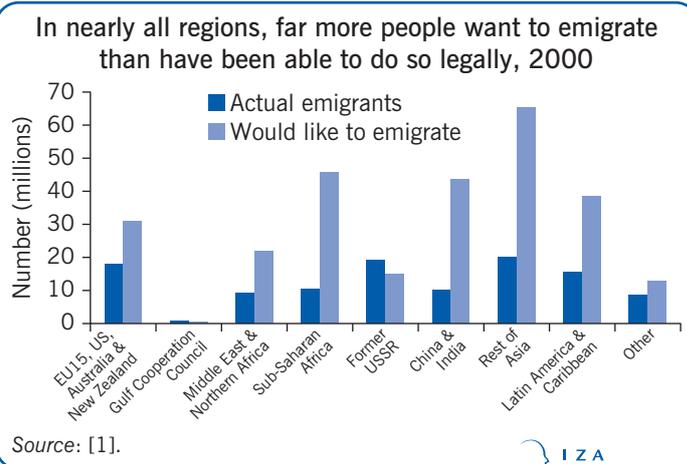
Should countries auction immigrant visas?

Selling the right to immigrate to the highest bidders would allocate visas efficiently but might raise ethical concerns

Keywords: auction, visas, immigrants

ELEVATOR PITCH

Many immigrant destination countries face considerable pressure to change their immigration policies. One of the most innovative policies is auctioning the right to immigrate or to hire a foreign worker to the highest bidders. Visa auctions would be more efficient than current ways of allocating visas, could boost the economic contribution of immigration to the destination country, and would increase government revenues. However, visa auctions might weaken the importance of family ties in the migration process and create concerns about fairness and accessibility. No country has yet auctioned visas.



KEY FINDINGS

Pros

- ⊕ Auctions would allocate visas more efficiently across immigrants or across employers.
- ⊕ By enabling workers with the highest-valued skills to immigrate, auctions have the potential to boost economic growth.
- ⊕ By enabling the government to fund other programs, cut taxes, or reduce the deficit, auctions would increase government revenue.
- ⊕ Auctions would substitute market forces for government determination of who should be able to immigrate.
- ⊕ Auctions are a flexible alternative to complicated point systems for encouraging high-skilled workers to immigrate.

Cons

- ⊖ No visa auctions have been conducted, so their effects are only theoretical.
- ⊖ Auctions do not guarantee the admission of immigrants who will contribute the most to long-term economic growth.
- ⊖ Auctions might change the composition of immigrant populations in ways that are unpopular, particularly among immigrants who want to bring in family members.
- ⊖ Some potential immigrants and employers may view auctions as too complex or unfair.
- ⊖ Sending countries might be adversely affected if the composition of emigrants changes.

AUTHOR'S MAIN MESSAGE

Under work-based visa auctions, employers would bid for the right to hire foreign workers, who would then receive a visa. Governments that opt to auction such temporary work-based visas should also consider creating a pathway to permanent resident visas for immigrants who succeed in the labor market. A resale market in unused or unwanted visas, visa portability across employers, and enforcement are all important components of a successful program to auction visas. Policymakers who want to boost immigration's economic contribution should consider auctioning work-based visas rather than auctioning visas directly to immigrants.

MOTIVATION

Around the world, far more people want to move to another country than are able to do so legally. Immigration offers the possibility to rejoin family members, to pursue better economic opportunities, and to be safer. Desirable destination countries, worried about being overwhelmed by a flood of immigrants, restrict the number of visas they offer. Countries that limit the number of visas must decide how to allocate them. Common criteria for allocating visas include skill, employment guarantees, and kinship ties; some countries use a point system, in which immigrants are admitted based on the number of points assigned for specific characteristics. Visas are typically awarded to all people who meet certain qualifications or, if demand exceeds supply, on a first-come, first-served basis. Some countries have introduced additional mechanisms in recent years for allocating the right to immigrate, such as lotteries and investor programs. One program that has been promoted by some economists, including Nobel-laureate Gary Becker, but that no country has yet adopted, is a visa auction, or selling the right to immigrate to the highest bidder.

DISCUSSION OF PROS AND CONS

How visa auctions would work

Visa auctions would allocate a specified number of visas to the highest bidders. The number of visas could be determined by the government or by an independent commission. Visa auctions could take several different forms. Potential immigrants themselves could bid for visas, or employers could bid for permits that allow them to hire foreign workers, who would then receive visas. Visas and permits could be temporary or permanent; even the right to citizenship could, in theory, be auctioned. Separate auctions could be held for different categories of immigrants, such as for different education or skill groups or for year-round versus seasonal workers [2].

There are multiple ways to conduct an auction. A sealed-bid, single-price format might be the best option for a visa auction. Bidders would submit secret bids, and visas or permits would then be allocated from highest to lowest bid until the quota has been met. Winners would pay the price of the lowest accepted bid. In economics, this type of auction is often called a “Vickrey auction.” This structure would help reduce concerns about the “winner’s curse,” or paying too much. It would also make more people willing to participate in the auction and bid their true willingness to pay.

There is considerable precedent in other markets for government auctions. Governments regularly auction bonds to investors in order to fund deficits. The US Treasury uses a sealed-

Vickrey auction

A Vickrey auction is a second-price, sealed-bid auction. Each bidder submits a confidential, or sealed price, bid. The highest bid wins the auction, but the winner pays the price of the second-highest bid. If multiple copies of the item are being auctioned, all winners pay the price of the lowest accepted bid—this is called a single-price auction. The economist William Vickrey showed that this auction design gives bidders an incentive to bid their true value of the good being auctioned instead of under-bidding in order to pay less if they win.

Source: Lucking-Reiley, D. “Vickrey auctions in practice: From nineteenth-century philately to twenty-first-century e-commerce.” *Journal of Economic Perspectives* 14:3 (2000): 183–192.

bid, single-price format to sell trillions of dollars of debt. The US government has also auctioned offshore oil leases, the wireless spectrum, and sulfur dioxide allowances, among others. The EU auctions emission permits as part of the EU Emissions Trading System; Iceland, Liechtenstein, and Norway also auction emission permits. Many people have experience with auctions thanks to eBay.

Paying for visas and setting up resale markets

One concern about auctioning visas directly to immigrants is their ability to pay. Many potential immigrants whose income gains would be expected to exceed the price of a visa might be unable to pay upfront for a visa, and they might not be able to borrow enough to pay for a visa because of limited credit markets in their home country. Auctioning permits to employers would avoid this concern. Alternatively, the government could offer loans to auction winners, who might be required to make a down payment. Winners would then repay the loans over time, perhaps when they file their taxes each year.

Having a resale market is critical to the success of visa auctions, particularly if permits to hire foreign workers are auctioned to employers. The government could run an electronic resale, or secondary, market where employers who hold valid permits can post them for sale. Tradable permits make employers more willing to participate in auctions by reducing their risk of holding a permit they no longer need. A resale market also allows employers to buy a permit later if they did not bid high enough in an auction or did not participate in an auction at all but later want to hire a foreign worker. Small businesses, in particular, might find a resale market more accessible than an auction.

Portability of visas

Visa portability—the ability of foreign workers to switch employers—is also critical to the success of an auction system. Foreign workers who cannot switch employers are more vulnerable to being exploited, and they have limited bargaining power. This, in turn, may put downward pressure on wages and working conditions not only for foreign workers but for competing native-born workers as well. Visa portability also allows foreign workers to move to sectors or areas with stronger demand for labor. Such movement reduces bottlenecks and promotes economic efficiency and growth. New immigrants are an important source of “grease in the wheels of the labor market,” and immigrants’ willingness to go where the jobs are is a key source of the economic gains from immigration [3].

A system that auctions visas directly to immigrants would presumably allow them to choose whether and for whom to work in the destination country [2], while a system that auctions tradable permits to employers should give foreign workers the flexibility to move across permit-holding employers. However, auctioning visas directly to immigrants might not help alleviate labor market shortages since auction winners might not have the skills that labor-seeking employers need. If employers bid for permits that allow them to hire a foreign worker, they presumably would bring in immigrants with skills that are in short supply among the domestic workforce.

Pathway to permanent visas

A government that opts to auction temporary work permits to employers could create a pathway toward permanent visas for immigrants who succeed in the labor market. The

government could hold a separate auction that immigrants with a temporary visa could enter after a set number of years, or permanent visas could be automatically offered to temporary visa holders who meet certain conditions, such as being employed on a temporary visa for five or ten years. Immigrants with permanent visas would not be restricted to working for employers who have a permit to hire a foreign worker. Creating a pathway toward permanent residence for immigrants can help avoid creating a persistent underclass of workers who are vulnerable to exploitation by employers who threaten not to renew a worker's temporary visa.

Enforcement

A final key component of a visa auction system is enforcement. If immigrants can easily enter a country or work there without a visa, there is little reason for them to pay for a visa or for their employers to pay for a permit. Effective enforcement might encompass border security and internal enforcement, depending on the country. Worksite enforcement that ensures that workers are eligible to work in a country is one component of internal enforcement. Worksite enforcement tools include audits of employers' records, electronic verification of workers' employment eligibility, raids, deportations of unauthorized workers, and punishment for employers who violate the law.

Other considerations

Although visa auctions may seem like a radical departure from current immigration policies in most countries, many immigrants or their employers already pay a fee. For example, as of mid-2015, the fee for an employment-based permanent resident visa in the US was US\$1,070; Canada's Express Entry system for employment-based permanent visas costs C\$1,040; and Australia charges A\$3,520 for its skilled independent visa class.

Some current immigration systems also involve fees that are not paid to the government. Many immigrants or their employers hire a lawyer or consultant to guide them through complex immigration program requirements. Potential immigrants abroad often pay an agent to help them secure a work-based visa. Visa auctions would capture some of the funds that legal immigrants and their employers currently pay to lawyers, consultants, and agents.

At the same time, many people who are migrating illegally pay large fees to smugglers or bribes to border guards. The government could potentially capture some of these funds and reduce the risks of unauthorized immigration by allowing migrants who pay a fee to migrate legally instead of illegally. Most unauthorized immigrants would probably be willing to pay more in order to migrate legally if they could; illegal immigration is a consequence of limits on the number and type of visas available [4]. Since an auction system would still limit the number and type of visas available, it must be combined with enforcement in order to minimize unauthorized immigration.

Across the globe, the desire to emigrate far outstrips the actual emigration rate—millions of people are willing to pay considerable sums of money in order to move [1]. Even at current fees, there is excess demand for visas to immigrate to certain countries, as evidenced by the long backlogs of people waiting to emigrate to Canada and the US [5], [6]. Under an auction system, there would be no backlogs, or excess demand. The price would adjust to clear the market, moving up automatically when demand for visas rises, and down when demand falls.

Economic advantages of auctions

Auctions offer several advantages over current immigration policies. Most important, auctions have the potential to allocate visas to their highest-valued use [7]. When there is a limit on the number of visas and they are issued on a first-come, first-served basis, visas are awarded to whoever is first in line regardless of whether that person—or the person’s employer—values a visa more than other potential immigrants do. Visa auctions, in contrast, use market forces to allocate visas efficiently based on willingness to pay. Employment-based auctions are an “invisible hand” directing the admission of immigrants with the skills valued the most in the labor market—the immigrants with the highest productivity.

It is difficult for governments to estimate or forecast the number of workers needed in specific occupations in the face of changing labor market demand [5]. Auctions of employment-based visas eliminate the need for the government to try to determine which occupations are in highest demand or are experiencing a shortage of workers. Immigrants who work in those occupations or their employers should be willing to pay the most for visas. In addition, auctions would reveal information to policymakers about bottlenecks in the labor market—situations where labor supply does not meet demand [8]. Policymakers could use this information to design education or training programs to alleviate bottlenecks in the long term, while allowing immigration to alleviate them in the short term. Alleviating bottlenecks would boost economic growth.

In theory, the government could simply set a higher price for visas instead of holding an auction. This could also lead to an efficient allocation of visas. However, the government is unlikely to know the demand for visas, which changes over time, and hence is unlikely to know the optimal price. Auctions would reveal this price and allow it to fluctuate. Further, changes in visa prices, either at auction or in the resale market, would provide a useful market-based signal to the government of changes in the demand for visas. An increase in prices would indicate an increase in demand for visas. The government might then want to increase the number of visas available. Otherwise, it would risk incurring more unauthorized immigration or worker shortages and bottlenecks to economic growth. If the government wants to reduce the number of foreign workers during an economic downturn, it could decrease the number of visas available at auction and even buy back visas in the resale market. However, a government that tries to manipulate the number of visas in response to the business cycle must do so nimbly and adeptly. Otherwise, changes in the number of visas may kick in just as the business cycle shifts to another phase.

Auctions have the potential to generate considerably more revenue than governments currently receive for visas. The gains to immigration are substantial, suggesting that many immigrants or their employers would be willing to pay large sums for visas or permits. Low-skilled workers can earn ten times as much in the US as in Egypt, Haiti, or Nigeria; workers from Guatemala and Mexico can earn at least 2.5 times as much [9]. In 2000, low-skilled Mexican men earned an average of US\$10,000 more annually in the US than in Mexico [10]. In 2009, Indian computer programmers working in the US on temporary visas earned about US\$58,000 more annually than they would have earned at the same job in India [11]. Visa auctions would transfer some of these gains from immigrants (and their employers) to the government.

Government revenues would also increase indirectly if an auction system leads to an increase in average incomes among immigrants [2]. Auctioning visas directly to immigrants would presumably result in a shift toward higher-income immigrants since they would be more able

to afford a visa; an employer-based auction system would likely also result in a shift towards higher-paid immigrant workers. Either way, government coffers would swell due to higher tax revenue.

The revenue raised by visa auctions can alleviate some of the concerns of opponents of immigration. The funds could be used to pay for training classes for native-born workers who work in immigrant-intensive sectors or areas. The funds could also be used to offset costs incurred by areas that receive large numbers of immigrants, such as the costs of educating their children or providing publicly funded health care or other services to immigrants. Alternatively, the government could cut taxes commensurate with the increase in revenue from visa auctions.

Visa auctions also help address concerns that immigration drives down wages and employment among native-born workers. By raising the price of hiring foreign-born workers, auctions increase employers' incentive to hire native-born workers. Meanwhile, visa portability benefits both foreign- and native-born workers.

Concerns about visa auctions

Although auctions should admit immigrants with the greatest willingness to pay for a visa, auctions do not guarantee that the number of immigrants admitted will be optimal. Auctions should result in the efficient allocation of a given number of visas, but the government still must set the number of visas. However, current immigration policies also require the government to set the number of visas. One benefit of an auction system over current policies is that the government can use visa prices as a signal of when it should change the number of visas.

Auctions of employment-based visas should admit the workers who are the most highly valued in the labor market at the time of the auction, but those workers may not be the most highly valued in the future. For example, computer programmers or their employers might be willing to pay the most for visas during an information technology boom, but those workers might become unemployed during an information technology bust. Governments might want to auction only temporary visas, not permanent ones. However, the same concern applies to other schemes used to admit immigrants; the skills in demand today may not be in demand in the future.

Of even greater concern is the fact that an auction system does not necessarily admit the immigrants who contribute the most to long-term economic growth. For example, an auction system might result in lots of investment bankers, but long-term economic growth might be higher if the country instead admitted lots of scientists and engineers. A system that prioritizes certain occupations or skills may better boost long-term economic growth, as long as the government is able to successfully target immigrants who make the greatest contributions to growth. Relatedly, a market-based system like visa auctions ignores any positive—or negative—externalities associated with immigrants. For example, discoveries made by immigrant scientists might boost patent activity in other companies. Employers are willing to pay for visas based on the value of contributions to their own companies, but are unlikely to be willing to pay for the value of positive spillovers to other companies. Alternatively, a system that auctions visas directly to individuals might result in many visas going to wealthy retirees, who do not contribute to the labor force at all but who make considerable demands on publicly funded health care.

An auction system might lead to a decline in the number of workers in relatively low-paying fields. Separate auctions could be created for certain categories of workers to ensure that low-skilled workers are able to immigrate, but the workers with the skills most in demand within those categories would still be the ones with the greatest willingness to pay for a visa. There is no obvious optimal set or number of categories for which to run visa auctions. Indeed, creating categories voids the simplicity and market-based nature of a visa auction scheme.

A deeper objection to visa auctions is that they are unfair—that the right to immigrate should not be decided solely on economic grounds. Immigrants may contribute to a country's diversity and its culture in ways that are not valued by markets. In particular, markets do not value family ties to people already living in a country. Being able to sponsor relatives to immigrate may be important to a country's residents, particularly those who themselves immigrated to the country. Likewise, an auction system does not admit immigrants on the basis of humanitarian considerations. Concerns that an auction system unfairly places economic considerations ahead of family ties or valid asylum claims may make it politically untenable, or at least deeply unpopular [12]. An immigration scheme that loses popularity might lead to backlash against immigrants or force the government to reduce the number of visas available. It is worth considering, however, that immigration policies that admit people on the basis of family ties or being first in line could also be considered unfair by people without family ties or not near the front of a line.

Finally, visa auctions might adversely affect sending countries if the auctions lead to changes in the composition of immigrants. Visa auctions could lead to more “brain drain” if they result in more high-skilled people leaving a country than current policies do. Visa auctions also could lead to a decrease in a sending country's capital if visas are auctioned directly to immigrants. Potential adverse consequences include higher interest rates, less innovation, lower tax revenues, and slower economic growth. On the other hand, allowing more high-skilled people to immigrate could boost remittances and the transfer of ideas and technology to sending countries.

How other innovative models compare with visa auctions

Although no country has yet auctioned visas, there are several other innovative ways that countries currently allocate visas. These include point systems, visa lotteries, and investor visa programs.

Several countries use point systems to allocate certain classes of visa, particularly for economic immigrants. Applicants earn points based on specified characteristics, such as age, education, occupation, language ability, and having a job offer. Australia, Canada, and New Zealand have had point systems for a long time, while several other countries (including the Czech Republic, Denmark, Japan, Singapore, Sweden, and the UK) have recently created point systems.

An auction system has several advantages over a point system. A point system requires determining the relative importance of potential migrants' various attributes—policymakers must decide how to award points. Points cannot be awarded for attributes that cannot be observed or quantified. An auction system does not require such decisions; immigrants (or employers) who are willing to pay the most are admitted. A point system does not ensure that immigrants will have the characteristics that are valued most by employers; a system

that auctions permits to employers does. A point system that includes a limit on the number of visas available can result in considerable backlogs if the number of people who meet the point threshold exceeds the number of visas available; an auction system clears the market.

A few countries use a lottery to allocate some types of visas. The US currently uses a lottery to allocate up to 55,000 permanent resident visas (“green cards”) per year through its diversity visa program for immigrants from countries that send relatively few immigrants to the US. New Zealand runs a lottery, or ballot, called the Pacific Access Category, that admits a small number of immigrants from several Pacific island nations. In both the US and New Zealand, immigration authorities use a lottery because the programs are oversubscribed—far more applications are submitted than the number of visas available. The US also uses a lottery to allocate H-1B temporary foreign worker visas for skilled specialty workers in years when more applications are received the first week than are available for the entire fiscal year. Otherwise, H-1B visas are allocated on a first-come, first-served basis until they run out; the program is capped at 65,000 visas per year plus 20,000 visas for applicants with a US master’s degree or higher.

Awarding visas based on a lottery creates a perception of fairness, but it does not allocate visas to their highest-valued users. In addition, lotteries may encourage people to try to game the system. In the US, for example, some companies submit far more applications for foreign workers than they need, and some workers have multiple H-1B visa applications submitted on their behalf.

A number of countries have programs that award visas to people who invest a certain amount in that country. In the US, for example, the EB-5 investor visa program allocates up to 10,000 permanent resident visas annually to people who invest at least US\$1 million in the US and create or preserve at least ten full-time jobs or invest at least US\$500,000 in a high-unemployment or rural area. The UK’s Tier 1 investor visa requires investing at least £2,000,000. Malta (an EU member) and the Caribbean nation Saint Kitts and Nevis even offer citizenship upfront to investors who meet certain requirements. The existence of these programs may signal that countries are open to auctioning visas. However, Canada scrapped its federal investor visa program in 2014 despite a considerable backlog of applicants because of its unpopularity with many Canadians, who complained that too many of the immigrants were wealthy Chinese investors who bid up housing prices in big cities. The Canadian province of Quebec still has its investor visa program, however.

The key advantage of auctions over existing investor visa programs is that investors may be willing to pay more for a visa than governments are currently charging. Auctions reveal prospective immigrants’ willingness to pay. However, the high prices likely to result from auctions aimed at investors would preclude most people or employers from being able to afford a visa. Another advantage of auctions is that they may avoid concerns about fraud that plague some investor visa programs.

In addition to visa auctions, economists have suggested creating tradable immigration quotas for refugees or other groups of migrants [13]. Assigning countries the number of immigrants they must accept and at the same time allowing countries to buy or sell those quotas via electronic auctions could increase global welfare. Under such a scheme, higher-income countries with high anti-immigrant sentiment would pay lower-income countries with low anti-immigrant sentiment to accept more immigrants. Such proposals do not include direct auctions of visas to refugees and other humanitarian immigrants; visa auctions would be aimed primarily at employment-based immigrants.

LIMITATIONS AND GAPS

To date, no country has auctioned visas, so the real-world success or failure of visa auctions and their short- and long-term effects are unknown. Visa auctions are more likely to be successful in countries that admit immigrants primarily on the basis of employment or skills, not family ties or for humanitarian reasons. The potential scope of auctions may be limited in EU countries that have a large share of “free movement” immigrants from other EU countries, unless they greatly increase the number of non-EU immigrants admitted. The unpopularity of Canada’s federal investor visa program suggests that auctions may be untenable even in countries that admit immigrants primarily on the basis of skills or employment.

SUMMARY AND POLICY ADVICE

Far more people want to move to another country than are able to do so legally. Popular destination countries restrict the number of visas they offer and need a mechanism for allocating them. Visas are typically awarded to all applicants who meet specified criteria or, if demand exceeds supply, on a first-come, first-served basis. Some countries have introduced additional mechanisms, such as lotteries and investor programs. A promising but as yet untried mechanism is auctioning the right to immigrate or to hire a foreign worker to the highest bidders. Visa auctions could boost efficiency, increase immigrants’ economic contribution to the destination country, and increase government revenues. However, visa auctions do not consider the role of family ties in migration and create concerns about fairness and accessibility. On balance, the economic benefits are likely to outweigh the costs, and policymakers should consider auctioning visas.

Policymakers who want to create a visa auction should consider starting with a pilot program. The best pilot program might be an auction aimed at investors, who are willing to pay substantial sums for visas. This might generate public support for broader auctions aimed at replacing employment-based visas for high- and low-skilled workers. Using the funds from visa auctions to reimburse localities that absorb large shares of immigrants for immigration-related costs or to cut taxes would also increase public support for visa auctions. Continuing to admit some immigrants based on family ties or for humanitarian reasons might make a visa auction more palatable. Economists have considerable experience at designing successful auctions in other markets, which policymakers can draw on in designing visa auctions.

Acknowledgments

The author thanks an anonymous referee and the IZA World of Labor editors for many helpful suggestions on an earlier draft.

Competing interests

The IZA World of Labor project is committed to the *IZA Guiding Principles of Research Integrity*. The author declares to have observed these principles.

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