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The Economic Consequences of the Proposed Immigration Reform

The immigration reform proposal, currently under discussion and known as “The Border Security, Economic Opportunity and Immigration Modernization Act of 2013”, could become the most important piece of legislation on immigration of the last fifty years. The proposal addresses most of the relevant issues plaguing the US immigration system. It deals with the problem of undocumented immigrants. It reduces some of the inflexibilities on labor immigrants, and it relaxes the quotas both for less skilled and more skilled labor immigration. While the proposal is not perfect, there is a lot to be liked in it. I will analyze it from an economic point of view. I will identify the legislation’s main points and evaluate their potential consequences for US economic growth, productivity, labor markets and for the welfare of its current citizens. I will then analyze the three main innovations brought by the reform.

Path to legal permanent residence. The reform proposal envisions a path to permanent residence for the 11 million immigrants who are without proper documents. All undocumented immigrants who entered the US before December 31, 2011 and are clear of any criminal conviction could apply to obtain the “Registered Provisional Immigrant” status upon payment of back taxes and a \$500 fine. Their spouse and children would also be eligible for the same status. After six years in this status, during which they could work and move in the US but would have no access to any federal means-tested benefits, they could renew the status for other five years. After that, conditional on paying taxes, paying another fee and having had a regular working history, these people could apply for permanent residence. In the meantime, the proposal requires that US-Mexico border security be achieved to prevent essentially all future illegal entry.

Clearly, such a path is no amnesty. It is long and demanding. All of the current undocumented aliens would achieve permanent residence only after those people who are currently in line to obtain US residence legally do so. Moreover, these immigrants would need to show a commitment to work and to be good citizens. What the reform would do immediately for the undocumented is (i) set the right incentives, (ii) give them certainty of the future and a legal status and (iii) allow them to work legally. From an economic point of view, these are very important changes. First, they would provide the immigrants with incentives to invest in human capital and training, which would improve their productivity. Immigrants would also be able to find jobs that best match their skills, which would likely lead to some growth in their productivity and wages in the medium run. Most studies analyzing the wage effect of acquiring legal status find wage gains between five and 15 percent in the medium run. Second, legal status implies that young individuals would be more willing to get an education. This would also increase their productivity and wages. As these individuals became more productive, their tax-paying ability would grow. Moreover, the fact that they would be excluded from federal benefits during the ten years of provisional status while they paid taxes and fines implies that they would have a net positive contribution to government revenues. Finally, as most of the undocumented immigrants are already employed, there would be very little additional effect on labor market opportunities for natives.

Increased number of skilled immigrants. The bigger gains for the US economy, however, in terms of productivity and efficiency are likely to proceed from the proposed increase in the quotas for highly educated workers (H1B temporary visa and permanent permits). The quota for the H1B temporary visas would be increased from 65,000 to 110,000, and this number would be allowed to rise to 200,000 when the economy is growing and the labor market for highly skilled workers is “tight”. The proposal also introduces 120,000 new

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“merit-based” permanent permits. This number could be increased to 250,000 if demand for these permits is high. Importantly, foreigners with a doctoral degree in one of the science, technology, engineering and mathematics (STEM) fields from an accredited US university and with a job offer could have immediate access to a permanent working permit (i.e. a green card).

The increased number of foreign-born STEM workers would contribute to innovation, entrepreneurship and scientific progress and hence would be a powerful engine of economic growth. As shown by recent research,¹ foreign STEM workers have helped improve US innovation, productivity and wage growth. Studying the inflow of H1B STEM workers into US cities between 1990 and 2010, Shih, Sparber and I found that they contributed between a sixth and a fourth of the total factor productivity growth in the US during that period.² This and similar studies also show no evidence that foreign STEM workers lowered native wages and employment in similar occupations: their contribution to productivity and growth more than compensated for their competition effects.

The reform proposal also introduces a market-based adjustment mechanism to determine the quota for temporary and permanent immigrants. The number of permits would increase in periods of high demand and decline in periods of low demand through an automatic adjustment. Economists have shown that immigration in periods of expansion is particularly beneficial to productivity and wages. Allowing more immigrants during periods of higher demand would facilitate their positive economic contributions.

New temporary visa for unskilled immigrants. Finally the proposal introduces temporary visas for less educated workers (called W visas), valid for three years and renewable. The quota for these visas would be 20,000 initially, and it could increase to 70,000 if demand is high and unemployment low. These visas would enable the mobility of workers across occupations that are classified as “low skilled” (i.e. ones that do not require a college degree). They would also allow workers in this status to apply for permanent residence. The goal of these permits is to allow an adequate inflow of (mainly manual) workers in sectors such as construction, landscaping, and personal and hospitality services. The decreasing supply of native workers (who are becoming older and more educated) in these sectors and the high demand for these services have contributed in recent decades to generate pressure to hire undocumented workers. This program should supply a legal channel for such workers. Companies would be able to find workers in manual occupations and shift natives into more interactive and cognitive tasks, while maintaining low costs and being able to expand. Moreover, the competition effect of these workers with natives would be limited, as natives are quickly moving out of these jobs. A further effect of these visas would be to keep the prices of such services low so that there will be more demand for them. The proposed cap for the W visas, however, is relatively small, and the question is whether it will be large enough to avoid recreating the incentives for undocumented immigration in the future.

Overall, by increasing the number of highly skilled immigrants, by offering better incentives and labor market perspectives to undocumented and less skilled immigrants, and by providing more flexibility to quotas and more mobility to temporary workers, the reform should contribute to growth, innovation and labor market efficiency and flexibility in the US. This would provide a very important and substantial economic stimulus for the coming decades.

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- 1 See, for instance W. Kerr, W.F. Lincoln: The Supply Side of Innovation: H-1B Visa Reforms and U.S. Ethnic Invention, in: *Journal of Labor Economics*, Vol. 28, No. 3, 2010, p. 473-508; J. Hunt, M. Gauthier-Loiselle: How Much Does Immigration Boost Innovation?, in: *American Economic Journal: Macroeconomics*, Vol. 2, No. 2, 2010, p. 31-56.
 - 2 G. Peri, K. Shih, C. Sparber: STEM Workers, H1B Visas and Productivity in US Cities, Norface Discussion Paper Series 2013009, Norface Research Programme on Migration, University College London, 2013.