

Immigration Reform: A Modest Proposal

Richard K. Vedder[†]

This is a significantly revised and expanded version of a chapter of a short monograph on immigration prepared in 2012 for the George W. Bush Institute, whose financial support is greatly acknowledged.

[†] Email: RVedder1@ohiou.edu. Address: Haning Hall, Ohio University, Athens, OH 45701.

1 Introduction

As stated in the earlier chapters of this book, the preponderance of evidence suggests that immigration has been, on balance, good for America. Immigration is an integral part of the story of the nation, and American economic exceptionalism has been propelled in part by the vitality that new infusions of human capital have bestowed on the nation. Yet it is also true that anti-immigrant sentiments have been part of the American political landscape almost since the beginning, and that in modern times the magnitude of those sentiments became so powerful that restrictions were placed on movement to America, restrictions that after 1924 became particularly onerous. It is no accident that America's ascendancy to economic leadership in the world mostly came in a period before immigration restriction was an important feature of life in the United States. The best international data suggest that the U.S. surpassed Great Britain in terms of total output in the 1870's, and in terms of per capita output in the first decade of the 20th century—periods of high immigration and no important immigration restrictions (Maddison 2001).

Although restrictions imposed on immigrants are probably, on balance, somewhat less onerous today than it, say, half a century ago when Lyndon Johnson was president, they still keep hundreds of thousands of migrants from entering the nation each year. Yet the battles over modernizing and liberalizing immigration laws over the past decade suggest that it is probably politically utopian to call for a virtual end to all immigration restrictions except as it pertains to persons who are potential threats to national security, public health or the rule of law. Needed is a policy that does at least eight things:

- Materially expands the flow of newcomers to American shores, giving the nation more of the economic vitality that young, hard-working immigrants have historically provided;

- Improves the average economic productivity of new immigrants and reduces economic and cultural problems of slow assimilation into American culture present amongst some immigrant arrivals;
- Does not discriminate overtly in favor of, or against, any person on the basis of nationality, race, gender, religion or any other group characteristic, with the single exception of exclusion of persons perceived dangerous on national security or public health and safety grounds;
- Imposes no fiscal burden, short-term, on the American taxpayer, and, indeed, potentially provides some immediate help in dealing with the problems associated with large budget deficits, either by directly reducing those deficits or by offering relief to native born taxpayers;
- Deals with and redefines the problem of immigration enforcement (unauthorized immigration);
- Provides encouragement, not barriers, to foreign students to remain in America upon completion of college degrees;
- Continues the American tradition of opening up itself to receive persons victims of political or religious persecution or extreme economic deprivation; and
- Lowers the bureaucratic, administrative, legal and human psychic costs associated with enforcing the immigration laws.

2 A Market, Not Rules-Based, Approach to Immigration

Basically, what I propose is a modification of an idea expressed publically first by the late Professor Gary Becker (Becker 1987; Becker and Becker 1997 and Becker 2011) of the University of Chicago a long time ago, an idea I've endorsed for quite some time (Gallaway and Vedder 1997). More recently and comprehensively, the idea has received renewed attention (Orrenius and Zavodny 2010).¹ Rather than have immigrants selected on the basis of some administratively determined rules and after a long waiting period, allow market forces to primarily determine who can enter the United States. Immigration would not be determined on where you were from, how long have you been waiting to be admitted, who your family members living in the U.S. were, some bureaucrat's determination of your skill level, or other such criteria. There would be a price of admission, call it a visa fee, just as there are admission fees to join other associations of people, such as the American Association of Retired Persons (AARP), the Rotary Club, a homeowner's association, or a country club. The amount of the fee, however, rather than being administratively fixed would vary with market conditions, similar to how the market for taxicab medallions (rights to drive a cab) varies in New York City.

Let me give more specifics of what I propose. The exact numbers of immigrants admitted is obviously something that can be altered in an upward or downward fashion. The proposal below assumes a level of new immigrant inflows between four and five per 1,000 population annually, a considerable higher number than currently coming in (even including undocumented immigrants), but still less than one-half the inflows, relative to population, observed at the peaks in the 1850s and 1900s. The allowable immigrant flows proposed are similar, however, in absolute numbers to those at the peak of immigration between 1905 and 1914.

¹ See also Hall, VanMetre and Vedder (2012) for a discussion of this approach to immigration restriction.

Every day, sell 5,000 immigrant visas for permanent admission to the U.S., probably via an electronic market setting, with visa prices determined by demand and supply conditions. The prices on any given day will be those that will lead to the sale of 5,000 visas (there can be multiple prices on any given day, similar to the stock market, because of intraday variations in demand; for example, 10 visas could be sold each minute from 8:30 a.m. to 4:50 p.m. to achieve the 5,000 daily quota). Assuming 250 business days a year, the implication is that 1,250,000 visas will be sold annually.

A variant would be to alter the number of visas sold daily with labor market conditions. In times of low overall unemployment when perceived labor shortages actually exist in some locations and/or occupations, the number of visas sold could be increased, and they could be reduced in recessionary periods when labor demand is smaller. For example, the number of daily visas sold could be reduced by 100 for each one tenth of a percentage point the unemployment rate exceeds 7 percent, or increased by 100 for each one tenth of a percent it is reduced below six percent. Thus if the unemployment rate were 8.1 percent, the number of visas sold would be 3,900 (5,000 minus 1,100 arising from the 1.1 percent increase in the unemployment rate above seven percent); if the unemployment rate were 4.9 percent, the number of visas sold would be 6,100 (the 5,000 daily allocation plus 1,100 more for the 1.1 percentage points reduction in the unemployment rate below six percent). Implicit in this formula would be the temporary suspension of immigration completely if the unemployment rate were to go above 12 percent. The maximum immigration visa sales amount would probably be around 8,000 daily (two million annually), happening only if unemployment rates fell to three percent.

How much money would be raised from visa sales? Since we have not had this market before, any estimate is just a guess. However, we do know that there are significant numbers of

immigrants who spend \$15,000, \$20,000 or even more to attempt (with no certainty they will succeed) to facilitate entry into the United States (Zhang and Chin 2002). For example, there are reports that Latin American and especially Asian immigrants have paid sums this large to be smuggled into the U.S., and many others who quite legally spend nearly that much to immigration lawyers to try to expedite admission or permanent residency in the United States under existing laws.

Suppose the government sold 1,250,000 visas annually at an average fee of \$14,000 each. The U.S. Treasury would receive \$17.5 billion in new revenues. The use of those funds would be an issue for Congress and the President to decide, but several possibilities exist—reduce the annual budget deficit, dramatically increase funds for the enforcement of immigration laws, provide aid for government infrastructure improvements in areas heavily settled by new immigrants, etc.

An idea that I think would make expanded immigration more popular with the American people would be to dedicate visa revenues to the reduction in individual income taxes. At this writing, individual income tax revenues are about \$1.4 trillion annually. If individual taxpayers were given \$17.5 billion in rebates proportionate to their income tax payments, their tax liability would fall by 1.25 percent. For a fairly typical taxpayer paying \$10,000 annually in taxes, the tax liability would be reduced by \$125 “from payment of immigrant visa fees.” Negative attitudes towards immigration might materially decrease if taxpayers perceived they were receiving some direct financial benefit from the new influx of foreign born. My guess is the \$14,000 visa fee estimate above is conservative. Suppose the true figure is \$24,000. Visa fees would provide sizable (\$30 billion) annual revenues to the Treasury, and potentially offering a fairly consequential tax reduction (over two percent) in taxes, something that unquestionably would

increase, albeit modestly, economic growth for fiscal reasons in addition to the positive impact associated with large infusions of human capital.²

In keeping with one of the eight desired characteristics of immigrant law reform discussed above, it would probably be desirable to have a small additional quota for refugees from political or religious persecution, or for people whose very human existence is threatened by being caught up in civil or international wars. The need for refugee visas varies a good deal with political and military conditions. Moreover, overly liberal use of refugee visas could undermine the paid visa admission program. Perhaps one idea would be to allow a five year moving average of refugee visas of 50,000 per year, with the President of the U.S. allowed to vary annual admissions from 0 to 100,000 within the parameters of the moving average maximum restriction. Obviously, that number could be increased or decreased as needed.

Finally, in addition to permanent visas, temporary short-term visas, especially for agricultural workers, might be included in immigration reform, allowing, say, 200,000 or so annually to enter the country for periods of a few months. Those visas could also be sold as most visas currently are, by payment of a fixed fee, or allocated using markets in a manner somewhat similar to that discussed for the permanent immigration visas that are the primary focus of this paper. Some associate the rise in illegal immigration to the United States largely to the failure to have a rational guest worker program, with some also longing for a revival of the Bracero guest work program in effect during the 1950s and early 1960s (Fund 2006).

“Guest workers” are purely economic migrants who take temporary residence in the U.S. for employment. Some of the contentious issues associated with permanent immigration are

² The negative tax/economic growth relationship has been demonstrated in voluminous numbers of studies. Seven examples include Genetski and Chin 1978, Benson and Johnson 1986, Cashin 1985, Kartel and Mertens 2013, Gemmell, Kneller and Sanz 2011, Romer and Romer 2010, and Reed 2008.

avoided, such as those relating to cultural assimilation. Also, while it can be argued that some immigrants compete in the same labor markets with native born Americans, most guest workers are doing very low wage agricultural labor in rural areas for which there is not a bountiful supply of native born workers. To be sure, as with any international migration, there are enforcement issues: how do you assure that guest workers return home? There are innovative ways of dealing with that issue, such as having a bonding program that imposes significant financial costs on guest workers who fail to return home in a timely fashion. Thus politically, the promotion of a market-based guest worker program has considerable appeal.

3 Advantages of Market-Based Immigration Restriction

How would the proposed system be superior to the existing one? First of all, those admitted would almost certainly be individuals who, on average, have high levels of skills or productive potential. While there may be a few rich but lazy and unskilled immigrants who could buy their way into America, the ones likely to get high paying skilled jobs in America are the ones most likely to benefit from the immigrant visas, and therefore the ones willing to pay more. An engineer from India with excellent prospects for a \$60,000 job but who is only making \$8,000 in India would probably gladly pay \$20,000 or even more for a visa—the cost of the visa is less than five months of the earnings differential associated with moving to America. By contrast, the relatively illiterate agricultural worker who might move from a \$3,000 annual income to a \$15,000 yearly wage would find the potential income gain to be dramatically smaller, with the visit costing 20 months of the earnings differential, and thus would be far less likely to apply. In any case, he would have more trouble financing the transaction. However, those agricultural workers could still obtain entry under cheaper temporary guest worker visas as discussed above.

One of the arguments by critics of immigration has been that the modern day immigrants are dramatically less skilled and educated than the native born American population, or than even earlier immigrants (Borjas 1999). It is true, as Table 1 shows, that contemporary American immigrants tend to hold more blue collar type jobs than native born Americans, being much more represented in service jobs or in factory or construction type work.

While recent data suggest this trend is already changing somewhat, it is true that a large number of newcomers to Americans have severe deficiencies that make it difficult for them to assimilate rapidly and move up the skill ladder to high paying jobs. For example, a disproportionate number of immigrants have less than a high school education as Table 2 shows.

The “pay to play” dimension of the proposed immigration policy would dramatically increase the mix towards those with higher skills and English language capabilities, and increase the immigrant-induced accumulation of human capital and entrepreneurial drive. Even now, immigrants play a disproportionate role in innovation. For example, I looked at the foreign born concentration in the 10 states with the highest level of per capita patent activity, and compared it with that in the 10 states with the least per capita patent activity. The results, in Figure 1, are startling—the immigrant proportions were nearly twice as high in the states with high patent activity.

Similarly, work by the Kauffman Foundation verifies that their “entrepreneurial index” shows roughly double the incidence of entrepreneurship among immigrants compared with native born Americans (Fairlie 2012). A market-based visa system should enhance this entrepreneurial instinct even more. It would, in short, increase American economic growth, and eliminate some of the gap between America’s recent subpar economic performance and historical high growth norms.

Moreover, American companies could gain some certainty over maintaining a skilled labor force. Under current law, there is uncertainty that employers can obtain H-1 visas for skilled workers, given severe numerical limitations. By advancing funds to promising immigrants, they could overcome the latter's financial problems of paying the fee, meanwhile getting quickly needed labor. This is a humane, modern day version of so-called indentured servitude, very popular in financing the passage to America of many immigrants in colonial times. Employers in effect recapture the cost of the visa by having workers sign, say, three year contracts, under which they are paid a modestly below market level wage to compensate for the visa costs. So-called "STEM" (science, technology, engineering, and math) skill shortages could be dealt with more efficiently and quickly than under existing provisions such as the grossly inadequate and administratively cumbersome H-1 visa program.

In addition to potential employers directly financing visas, it might be that new financial instruments would evolve. Human capital contracts, also known as Income Share Agreements (ISAs) might be offered by entrepreneurial financial service firms, whereby the immigrant would agree to pay the entrepreneur a share of earnings for a specific number of years—for example, 10 percent of earnings for five years. This bears some resemblance to higher education student loans where loan repayment is income-based.

One group that would be particularly aided by a reformed immigration law would be foreign students to the United States who, under current law, are often forced to return to their native land. In some cases, they are receiving higher education highly subsidized by Americans taxpayers, only to take their newly acquired human capital skills home—to compete with Americans. These foreign students have an American education, are familiar with the English language and American cultural traditions, and thus are likely to be highly viable candidates for

jobs in the U.S. The prospects of such jobs would allow them to acquire American immigrant visas. My guess is that banks and other financial service industries would start offering loans that would facilitate visa purchase by graduating foreign students, particularly where the graduating student has firm offers of a job contingent on receipt of a visa. Indeed, I suspect employers themselves would offer visa payment as a fringe benefit, just as they offer new employees who are already American citizens help in paying tuition fees for graduate degrees.

The costs associated with migration to the U.S. today are vastly more than the transportation costs that historically were the largest barrier to international movement. As mentioned above, people spend thousands of dollars using immigration lawyers to negotiate the labyrinth of rules, laws, etc. associated with moving to the U.S. There are huge elements of uncertainty: will my visa application be approved? When? Often the “when” question involves years of waiting. American embassies and consulates spend inordinate resources dealing with issues raised by potential migrants. The system is often unfair, costly, time-consuming and always excessively bureaucratic. Most of that would be swept away under a market based system. To be sure, some background checking of successful visa applicants would be necessary for national security reasons, but costs would be dramatically reduced for the applicant and the U.S. government alike.

It is interesting that existing American immigration law, to a very limited extent, already recognizes that getting people with high level of resources is particularly valuable to the nation. The EB5 Visa, dubbed as the “millionaires visa,” permits entry into the U.S. for foreign investors agreeing to put at least \$500,000 into creating or preserving a business with at least ten jobs. Several hundred of these were issued annually for years, but now the number of applicants has grown dramatically; 7,641 EB-5 visas were issued, about 80 percent to wealthy Chinese

investors, in fiscal year 2012, some of whom pay “EB-5 consultants” over \$100,000 to facilitate the processing of the visa (Dawson 2013). Interestingly, other countries (most recently Australia) are imitating the U.S. example regarding investor immigrants.

The H-1 Visa is reserved for persons with talents and skills and is administered by U.S. Citizenship and Immigration Services (USCIS). In recent years, on average slightly over 100,000 of these visas have been issued annually, based on employer (not employee) application. The visas are not directly a path to citizenship. They are renewable for a finite time, and some H-1 Visa holders at some point must return home for at least one year. They are strictly limited in number. In most recent years, the visa quota for the year is used up very early. Inadequate as it is, the H-1 visa system is a small but still tangible acknowledgement that “skills matter,” and that immigration is a way of meeting critical labor needs.

Thus my suggesting financial and/or productivity criteria for admission is not a new idea, and the idea of skills-based immigration admission is well established (if inadequately so) in the law. Nearly 100 years ago, the literacy test imposed by the 1917 immigration act was designed to attract immigrants who assimilated more readily and were likely to be more productive. On average, the literate persons admitted were probably financially better off than the illiterate individuals excluded from migrating. So the concept that financial resources can facilitate immigration to the U.S. is not a new one in this modern era of immigration restriction.

A final advantage of the market-based approach is that it provides the nation a vital metric measuring the attractiveness of the United States. A rise in visa prices signifies market judgments that the U.S. has significant and increasing occupational and other advantages over other nations, while a price decline would indicate the opposite effect. Politicians, social scientists, and others would be able to assess in much more accurate ways than at the present the

“bottom line” question: is the United States becoming a more or less attractive place to live? I could see changing visa prices becoming a measure that presidential candidates use in electoral campaigns, and policy makers use in identifying problems or solutions dealing with perceived deficiencies in the quality of American life.

4 Criticisms of the Market-Based Approach

Yet there will be many objections to a market based approach. It will be argued that it discriminates against poor deserving immigrants. In one sense, that is quite true, in the sense that those with resources have advantages in life over those without them: Rolls Royce ownership, for example, is highly concentrated among high net worth individuals. But only a limited number of immigrants are going to be admitted to our shores, given skepticism of Americans about unrestricted immigration—some persons are going to be turned away. Why is using financial criteria more “unfair” or “discriminatory” than rationing admission on other criteria, including, in some cases, where the immigrant is from? Why should some aspiring Americans be given preferences because of familial connections (under the family provisions of existing law), while others are not? While fairness is a subjective, normative concept, my sense is that it is more equitable to discriminate on the basis of financial considerations than on such things as family backgrounds or nationality of birth.

Others might observe that since Latin American immigrants tend to be less educated and skilled, this proposal would reduce the proportion of immigrants coming from those areas. Probably this is true, but that does necessarily mean a large reduction in the absolute *number* of immigrants from those areas, since the fall in the “market share” of, say, Mexican immigrants could well be offset by an increase in the size of the immigrant pool. If, for example, the

Mexican immigrant market share were to fall from 25 to 15 percent while total U.S. immigration rose from 800,000 to 1,400,000 annually, the absolute number of Mexican immigrants admitted annually would actually rise slightly, going from 200,000 to 210,000.³

Yet even if Mexican immigration (or that from other relatively low income Latin American countries) were to decline, it means that an immigrant from, say, China or India substitutes within the aggregate numerical limit for one from Mexico or, say, Honduras. On “fairness” grounds, why is Mexican immigration to be preferred to Chinese immigration? Moreover, if certain individuals or groups want to promote, say, Mexican immigration, they can do so by assisting prospective immigrants pay their admission fee.

Moreover, a shift in immigrant composition somewhat away from those from the Western Hemisphere south of the United States towards those living elsewhere might actually reduce immigrant-induced public policy tensions and improve public attitudes towards immigration. For example, a major issue in several southern and western states has been the attempt, most notably seen in Arizona, to crack down on immigration of those entering the U.S. illegally from our southern border, a group that has been dominated by Mexican and Latin American cohorts. To that subject we now turn.

5 Policies Regarding Unauthorized Immigrants: Past and Future

Without question, the most difficult issue in immigration policy is dealing with persons who have entered, or will in the future enter, the United States illegally. A centerpiece of American economic exceptionalism has been that the nation has been governed by rules—laws—that most

³ Of course, a large portion of Mexican immigration to the U.S. has been illegal, and changing rules of legal immigration could also impact that flow as well. It is noteworthy, however, that the general consensus is that there have been essentially no net in-flows of illegal Mexican immigrants since 2008.

Americans automatically accept. Voluntary acceptance of laws is a hallmark of prosperous nations, and disrespect for laws is commonplace in poor countries. It is universally agreed in prosperous nations like the U.S. that those who break the rules must be punished, with the major disagreement usually being over the severity of punishment, although there is also occasional debate whether some existing laws are really necessary or appropriate, such as laws restricting the use of marijuana.

The “law and order” side of me believes that all laws must be enforced until changed through constitutionally sanctioned procedures, typically a vote of Congress and the signature of the President (or an override of a presidential veto). If people can enter the U.S. without regards to the laws, it creates three large problems. First, of course, is the flouting of laws has an adverse impact with respect to the maintenance of overall law and order, a bulwark of American capitalism and democracy. Second, it undermines attempts to shape through public policy the magnitude and nature of immigration to the U.S. Third, illegal immigration creates unfairness and inequities—lawful persons wait in line (current policy) or pay large visa fees (proposed policy) while those breaking the laws avoid these costs and inconveniences.

For all of these reasons, even persons with highly pro-immigrant sympathies should proceed with caution in endorsing blanket amnesties for those living in the U.S. in violation of immigration laws.⁴ Some sanctions for unauthorized immigration to the U.S. seem in order so that respect for the rule of law is maintained.

That said, however, there are real problems about taking draconian approaches to immigration enforcement. First of all, the 10-12 million unauthorized immigrants in the U.S. are

⁴ The stunning defeat of House Majority Leader Eric Cantor in a June 2014 Republican primary was largely attributable to Cantor’s support of a path to citizenship for illegal immigrants, which his opponent opposed. While a majority of Americans seem willing to consider legalizing undocumented immigrants, there is a significant minority who feel very strongly that immigration laws should be enforced rather strictly.

now an important part of the nation's human capital stock and perform many jobs for which native born Americans seem to be disinterested in filling, at least at current wage rates. As an economist, I would argue that "disinterest" would change if wages rose sharply for these positions, which is what would probably happen if we had mass deportations of immigrants.

Second, many of these illegal immigrants have spent years in the U.S. and have children who, under the U.S. Constitution, are U.S. citizens. There would be horrendous issues of equity and arguably legality about deporting U.S. citizens who themselves are minors who have instigated no crimes.

Third, the laws broken in general were highly flawed and showed no regard for the positive economic impact that immigration has had on the American economy. A massive crackdown on unauthorized immigrants living in the U.S. would no doubt lead to output and income reductions and a fall in the nation's output. It would be disruptive even for non-illegal immigrants. The stores selling goods to these undocumented immigrants, for example, would see sharp sales declines, leading to business failures and the laying off of workers—most of who are legal residents of the U.S. and, indeed, in many cases, native born U.S. citizens.

The most important previous attempt to deal with the unauthorized immigrant problem was the 1986 immigration law, in which full amnesty was granted to a large number of previously illegal immigrants (those residing in the U.S. more than five years). If a similar law were adopted now, it would seemingly make mockery of immigration laws, implying that those breaking the laws can go scot free of punishment if they simply stay hidden long enough until another amnesty occurs, perhaps 25 years from now.

Having a large number of residents hiding from authorities and concealing their identity for long time periods poses all sorts of problems for a functioning democracy. Of paramount

importance is that illegal residency probably often leads to exploitation of that illegal status by unscrupulous employers, as these individuals are highly constrained in offering their labor services to others. We have “another America,” one where labor markets are more akin to those in feudal times where serfdom prevailed, if not under the overt slavery of early America.

But this is not the only issue. Should illegal immigrants be eligible for government benefits? How do we assure that they pay taxes and other acts associated with residency, if they do not even have legitimate Social Security numbers? Should the children of illegal immigrants born in the U.S. be treated differently than the children of those immigrants born in their country of origin? The problems illegal immigration poses are many. Reducing or eliminating it thus seems highly desirable.

At this writing, public opinion polls show that a majority of Americans now are generally supportive of allowing illegal immigrants to stay in the country, but are divided on details, such as whether these individuals should be able to becoming citizens or merely permanent resident aliens, whether they should be required to know English, etc. (Pew Research Center 2013). A 2012 Rasmussen poll found that most (73 percent) agree with President Barack Obama’s proposal that would allow those brought to the U.S. as children (under 16) and who have graduated from high school or served in the military and have no criminal record should be allowed to get a legal work permit. (Rasmussen Report 2012) However, a majority (63 percent) oppose giving driver’s licenses or public benefits even to these persons.

An alternative approach to amnesty for existing undocumented immigrants is more appealing from a law and order perspective, but accepts the reality that these residents contribute importantly to the nation’s resources. Under this scenario, a law is passed making it a misdemeanor crime to live in the U.S. illegally, but allows such individuals who come forth and

confess to their guilt an opportunity to both pay for their “crime” and acquire a path to legal status.

There are a variety of ways that this move towards ultimate decriminalization of undocumented immigrants could occur. Here is one example, assuming that the visa system discussed above was implemented for legal migrants. Have illegal immigrants to the U.S. who present themselves to authorities pay a fine of \$1,000 each. Let them also borrow from private lenders (my preference) or even the U.S. government itself the money to buy at current market prices visas giving them the same rights as other purchasers of visas have---including a path to citizenship. Allow the lender to garnish the wages of the individual until the loan is paid off. If a federal program, set interest rates on the loan at a relatively low level, but well above what the U.S. treasury pays on long term obligations to cover the costs of the lending program. In order to maintain a large flow of new immigrants who otherwise would be crowded out by visa applications from existing illegal immigrants, it would be probably necessary for a significant transition period to increase the number of visas issued beyond the 5,000 or so a day proposed above.

Suppose an immigrant from Mexico living illegally in the U.S. comes clean. He or she would pay \$1,000 as a fine immediately, and then borrow, say, \$14,000 to cover the cost of the visa, paying 5 percent interest (\$700 a year in interest payments). Suppose he or she were making \$15,000 a year as an illegal migrant. With a secure legal status, he or she likely would make more, since the worker now could sell his or her services competitively in labor markets and employers would be more willing to hire this now legal immigrant, as they would not face the possibility of being criminally charged themselves for employing illegal workers. With increased competition for his or her services, work income might easily rise to \$20,000 a year. If

he or she pays 10 percent of that income for loan repayment, disposable income would still rise about 20 percent from what it otherwise would have been, and the U.S. government within nine years or so would be fully paid with interest. The government comes out ahead (it has collected the visa fee and will collect more taxes in the future) and so does the immigrant. The economy gains since the immigrant can now go above ground in the labor market and likely do more productive work. Moreover, the immigrant becomes eligible for the government social safety net, the right to seek citizenship and participate in the democratic process through voting and ultimately perhaps even running for office, etc. It would speed dramatically assimilation into American society, which would help all Americans.

To be sure, some illegal immigrants no doubt would turn down that deal. Regrettably, we would have to punish this group more harshly than in the past. First, employer sanctions for employing illegal immigrants perhaps would have to rise. Second, we might have to bite the bullet and put large numbers of arrested illegal immigrants into makeshift work camp/corrections sites for a period of, say, three to six months. My guess is if we round up, say, one million unauthorized immigrants who refuse the visa offer and also fine their employers several thousand dollars per worker (maybe even the price of a visa sold under the market-based auction system) and imprison the immigrants for three months and then return them to their home country for some time period, the recidivism rate would be *dramatically* lower than under current policy, particularly if the penalty for second offenses is greater than the already much increased first offense penalty. Moreover, the cost of the incarceration could easily be completely covered by employer fines, and from revenues from the sale of visas under the new immigration policy. Suppose five million illegal immigrants came clean, paid \$1,000 fines

(netting the U.S. Treasury \$5 billion), and purchased visas at \$14,000 each—that is \$70 billion, a significant multiple of what is spent annually on border enforcement.

From opinion polls, we know Americans feel more charitably towards illegal immigrants who entered the States as children under the tutelage of their parents. These individuals themselves did not willfully break U.S. laws. Arguably, the financial penalties for obtaining legal status could be set considerably lower for these individuals relative to their parents who willfully disobeyed U.S. immigration laws. Similarly, we grant various kinds of benefits to those who serve in the U.S. Armed Forces, including in some previous periods in history, a quick path to U.S. citizenship. It would make sense, perhaps, to excuse \$500 of fines and visa fee payment for each month served in the military, roughly consistent to the college scholarship assistance provided to native born Americans under the G.I. Bill. In most cases, this would lower the cost of a visa for veterans to zero or near zero (it is a mystery to me how illegal immigrants currently serve in the Armed Forces, but apparently it happens).

With regards to unauthorized adult immigration occurring after a new immigration law is introduced, there is no question we need to impose real penalties of a very significant magnitude so that intended immigration objectives are realized, the rule of law is maintained, and unfairness to legal purchasers of visas is minimized. That must include significant employer penalties as well as at least some jail time (or the equivalent) for the illegal workers themselves. Currently crime pays for many with respect to immigration laws; we must make it so crime does not pay.

This conceivably could lead to all sorts of changes. If fines to employers and risks to employees become too great, more and more employers will simply help workers buy visas from the beginning. The cost of the illegal path to American employment would rise sharply relative to the previously largely unavailable legal path, leading to a very sharp decrease in new

incidences of illegal migration. Even now, there has been a virtual cessation of net illegal inflows from Mexico since 2008. My sense is the illegal immigrant problem would diminish, probably fairly quickly, towards zero in a world of liberalized market-based migrant inflows.

To be sure, any change in immigration laws are going to have varying impacts. While generally beneficial, it is possible that the new market-based approach would change the occupational mix of immigrants, possibly raising the cost of employing workers and a subsequent decline in competitiveness in some industries, such as the production of fruits and vegetables, but in the long run should lead to a more efficient and equitable allocation of resources and treatment of employees. Should a second guest worker visa program be established in addition to a market-based visa for permanent residency, the potential negative effects should be minimal on agriculture from changes in immigration law. On the whole, the availability of a larger, more productive immigrant work force should increase competitiveness of America in the world economy, stimulating economic growth and entrepreneurship, particularly since immigrants tend to be more work and innovation-intensive than the American population as a whole.

Some of the provisions above may seem somewhat harsh towards immigrants. I think, however, that in the long run a policy similar to that suggested above is desirable because it will dramatically reduce political opposition to liberalization of the immigration laws. There is a wide subset of the population who, while contemptuous and even angry about illegal immigration, are basically accepting the principle that our nation should open its doors to newcomers from abroad.

The proposal stated above can be tweaked or changed in a variety of ways. If it was up to me, I would sell a larger number of visas annually—say 1,500,000 instead of 1,250,000. I think it

is certainly advantageous economically and probably salable politically. The revenue effects are uncertain, largely dependent on the price elasticity of demand for visas. The tradeoff between visa magnitudes and probability of political success, however, are real and actual visa magnitudes have to be governed by that reality. Personally, I would be relatively lenient in penalties imposed on those who illegally came into America at a young age, or who served in the nation's armed services. Law enforcement should be effective and meaningful, but also compassionate and fair. Again, some political tradeoffs may be necessary—fortunately these are policy options that have room for flexibility and compromise.

6 Alternative Approaches to Liberalized Restriction

6.1 Market-Based Alternatives

One big and valid objection to the market-based visa proposal above is that it is hard to sell politically. An alternative that would achieve a large portion of the gains of the proposal outlined above would be to maintain the current immigration law with its myriad of provisions, mostly favoring family preferences, but then add on a new visa, with perhaps 400,000 or so sold annually, using the market based approach above. This would end or dramatically reduce opposition from those liking or benefiting from particular provisions of the current law, including those anticipating bringing in relatives under the family preference provisions. Additionally, immigration lawyers, potentially a strong lobbying group, might feel threatened by the initial market-based proposal that might largely eliminate the need for their services, but would view any system that still requires their legal expertise as acceptable.

The “add on” visa system would achieve the objective of increasing the magnitude of immigrants, and at least partially achieving the goal of having an immigrant population even more economically productive than the existing immigrant stock. Moreover, to further stifle opposition, trigger mechanisms could be implemented that would reduce, or even eliminate, the sale of visas in periods of economic stress. For example, the number of visas sold could equal 400,000 annually in any period when the unemployment rate is in the range 5 to 6.5 percent, but be reduced 20,000 on an annual basis for each 0.1 percentage point unemployment rises above 6.5 percent. With unemployment rates above 8.5 percent, the visa sale program would be suspended. On the other hand, if unemployment fell to four percent, visa sales would be increased to a 600,000 annual rate. Alternative labor market indicators (e.g., the employment-population ratio) could be used as a trigger mechanism instead of or in addition to the aggregate unemployment rate.

A second market-based approach has gained favor in recent years (even with Gary Becker), namely instituting what might be called an immigrant tariff, allowing anyone paying the tariff (tax) admittance to the U.S., assuming he or she is not a national security or health risk. This approach creates an element of certainty—any person contemplating a visa purchase knows precisely what the costs will be—and is superior to the original proposal on that ground. It should be administratively simple to administer—issuing a visa upon payment of the tariff would be little more difficult than issuing a passport.

Yet from my perspective the tariff approach has some disadvantages. First, of all, what should the initial price (tariff) be? We really do not know with any certitude what the demand curve for admission to the United States looks like. If the price is set extremely high, the gain in the number of immigrants over current levels could be too small; if it is set very low, the number

of immigrant inflows might exceed what is politically acceptable, leading to a rationing system that departs from the market ideal. Moreover, the tariff approach does not provide what I view as an extremely valuable metric—an objective estimate of the relative attractiveness of the United States. Still, on the whole, this approach is much superior to existing immigrant allocation procedures, and, again, could be implemented either in lieu of existing policies or as a supplement to other ways of determining immigrant admissions.

Could visas sold under either the pure market or tariff approach be resold by the initial purchaser? I think, politically, the answer should probably be no. Aside from concerns that speculative financial transactions into the right to migrate appear unseemly and inappropriate to some, resalable visas could open the door into political lobbying into setting immigration limits based on the narrow interests of small groups of individuals— existing visa holders.

6.2 Non-Market-Based Alternatives

It is possible, of course, to improve immigration policy somewhat within the context of a rules-based law administered by government bureaucrats. We could move to a more skills and vocationally based policy within the current bureaucratic framework. We could, for example, triple the number of H-1 visas issued annually, bringing perhaps 200,000 more skilled immigrants to the U.S. annually, a vast improvement over current law. However, I view this as a far less attractive option, since evidence has shown us time and time again that market-based resource allocation decisions almost always bring superior results to those given to us by centralized government bureaucracies. Moreover, the volume of immigration is likely to still be too low. While diminishing returns likely do set in with respect to increased immigration at some point, I suspect fairly large increments to immigrant flows are on balance welfare enhancing.

Moreover, a market based approach could be *revenue enhancing* for the government, while most alternative approaches have are more likely to have negative, not positive, budgetary consequences in the short run.

Canada has used a points system that rewards attributes that likely would lead to an economically more productive population. For example, using a Canadian-style system, we might agree to admit the 1,250,000 persons annually with the highest number of points. Suppose the maximum number of points attainable is 100, and that 1.25 million apply with 84.2 points or more. Those individuals whose score is 84.2 points or more would be admitted, while those with fewer numbers of points would not. Perhaps the application would include an English literacy test on which those unable to perform at all well would get 0 points, those who show some English comprehension but not a lot would get 5 points, those with fairly high levels would get 10 points, while those with obvious high levels of proficiency would get 15 points (it could be refined to a continuous variable with a wide number of possible scores). Arguably, an oral examination would be part of the test. Education can be factored in: graduates of colleges with advanced professional and technical degrees might get 15 points, those with bachelor degrees 10 points, and those with high school diplomas or the equivalent would get five points. Similarly, points could be awarded for previous work experience, for involvement in certain fields of employment (e.g., computer programming, engineering), etc. Close relatives of those with high scores could get a few points credit for their relative's high score, although that sends one down the slippery slope of making immigration allocation decisions based on family background rather than considerations of individual merit.

The points system has some modest advantages over existing procedures, but is definitely highly flawed in my judgment. A graduate of Oxford University is likely to be more productive

than a graduate of an obscure school in Asia or Africa that has no academic distinction, but both graduates get 15 points. Five years working as a professor at a German university arguably suggests higher productivity potential than five years doing manual agricultural labor in Latin America or Asia, but the point system has difficulty allowing for that distinction. Any points system is going to suffer from deficiencies such as discussed above, and attempts to remedy them through an extremely elaborate procedure robs the approach of its simplicity and low administrative cost.

By contrast, with a rationing system based on price, these nuances in individual training and background are taken into account. If an American company desperately wants someone with some peculiar skill that is not fully appreciated by the points system, it can use its money and take a chance on the individual by paying for his or her visa. If someone wants to buy his way into the country as well as bring in a wife who is not likely to work and two young children, he can do so, but will have to pay America for that privilege. Most likely, under practices followed throughout history, the breadwinner would enter first, and with the passage of time use his or her earnings to buy passage into the country for relatives.

7 A Compassionate, Mutually Beneficial, Pro-Growth Immigration Policy

America is a nation of immigrants that has become truly economically exceptional in part because its vitality as a nation has been constantly renewed and strengthened by new eager human resources entering the country. This was or is true in the 1600s, the 1800s, and the 2000s. Fears of immigrants, present throughout history, have led us into a century of restricting in-

flows, a move that on balance has had adverse effects on the American economy. We need to start to reduce those restrictions, at the same time recognizing that immigration fears make unlimited immigration politically infeasible.

In opening up immigration, we should seek that the increase in immigrants be bright, disciplined, educated, and likely productive workers who will assimilate readily into the American culture. If immigration is rationed on the basis of price (the cost of a visa), it is virtually certain that the persons who would most likely buy visas are those with favorable economic characteristics such as good English language facility and high educational attainment, since productive persons are also those with access to financial resources. A market based immigration policy is administratively easier to run, likely would produce an even more relatively productive immigrant population, and treats persons neutrally with respect to race, gender, religion, nationality, etc. It would promote economic growth and help us maintain our leadership in some fields, such as high technology and scientific endeavors. It would actually reduce the fiscal stress on Washington. It would improve the lives of more of our planet's citizens. In short, it is a win-win policy for native born Americans, for immigrants themselves, and for future generations who will benefit from the economic prosperity unleashed by the human capital resources of our immigrant population.

References

- Becker, Gary S. 1987. "A Radical Proposal to Improve Immigration Policy." Mimeo.
- Becker, Gary S. and Becker G.N. 1997. *The Economics of Life: From Baseball to Affirmative Action to Immigration, How Real World Issues Affect our Everyday Life*. Columbus, OH: McGraw-Hill.
- Becker, Gary S. 2011. "Gary Becker's Immigration Plan," at <http://modeledbehavior.com/2011/04/13/gary-beckers-immigration-plan>.
- Benson, Bruce L. and Johnson, Ronald N. (1986) "The Lagged Impact of State and Local Taxes on Economic Activity and Political Behavior." *Economic Inquiry* 24 (3), July, 389-402.
- Borjas, George J. 1999. *Heaven's Door: Immigration Policy and the American Economy*. Princeton, NJ: Princeton University Press.
- Cashin, Paul. 1995. "Government Spending, Taxes and Economic Growth." *International Monetary Fund Staff Papers* 42 (June): 237-269.
- Dawson, Kelly Chung. 2013. "In Immigration Debate, Millionaire's Visa Under the Radar." *China Daily*, May 4. http://chinadaily.comcn/epaper/2013-05/01/content_16465519.html.
- Fairlie, Robert W. 2012. *Kauffman Index of Entrepreneurial Activity, 1996-2011*. Kansas City, MO: Kauffman Foundation, March.
- Fund, John. 2006. "Cross Country: Bring Back the Braceros." *Wall Street Journal*, July 27, A13.
- Gallaway, Lowell and Vedder, Richard. 1997. "Charging Our Way to Better Immigrants." *USA Today*, January 30, A13A.
- Gemmell, Normal, Kneller, Bichara, and Ismael Sanz. 2011. "The Timing and Persistence of Fiscal Policy Impacts on Growth: Evidence from OECD Countries." *Economic Journal* 121 (550): F33-F58.

- Genetsk, Robert L. and Young D. Chin. 1978. "The Impact of State and Local Taxes on Economic Growth." Chicago: Harris Bank, November.
- Hall, Joshua C., VanMetre, Benjamin, and Richard Vedder. 2012. "U.S. Immigration Policy in the Twentieth-Century: A Market Based Approach." *Cato Journal* 32 (1): 201-220.
- Maddison, Angus. 2001. *The World Economy: A Millennial Perspective*. Paris: Organization for Economic Co-Operation and Development.
- Merten, Karel and Morten O. Favn. 2013. "The Dynamic Effectives of Personal and Corporate Income Tax Changes in the United States." *American Economic Review* 103 (4): 1212-1247.
- Orrenius Pia M. and Zavodny, Madeline. 2010. *Besides the Golden Door: U.S. Immigration Reform in a New Era of Globalization*. Washington, D.C.: AEI Books.
- Pew Research Center. 2013. "Immigration: Key Data Points from Pew Research." September 24. <http://www.pewresearch.org/key-data-points/iminigration-tip-sheet-on-u-s-public/opinion>.
- Rasmussen Report. 2012. <http://www.rasmussenreports.com>. August 20.
- Reed, Robert. 2008. "The Robust Relationship between Taxes and U.S. State Income Growth." *National Tax Journal* 51(1): 57-80.
- Zhang, Sheldon X. and Ko-lin Chin. 2002. *The Social Organization of Chinese Human Smuggling-A Cross National Study*. San Diego, CA: San Diego State University.

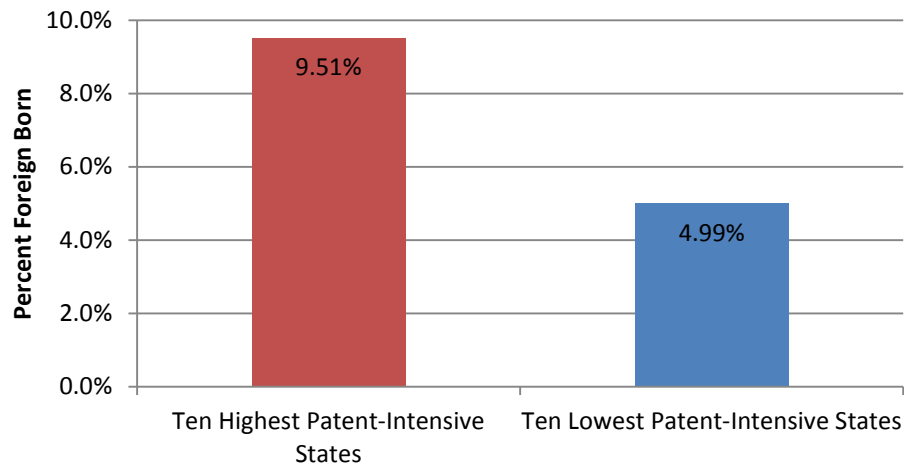
Table 1 Occupational Mix, Native and Foreign Born Americans, 2010		
Occupational Category	Native-Born	Foreign-Born
Management, business, science, and arts	37.4%	28.6%
Service	16.6%	25.1%
Sales and office	26.4%	17.8%
Natural resources, construction, and maintenance	8.4%	13.0%
Production, transportation, and material moving	11.2%	15.5%

Source: U.S. Bureau of the Census

Table 2 Educational Attainment of Natives and Foreign-born, 2010				
	Less than high school graduate	High school graduate or equivalency	Some College or associate's degree	Bachelor's degree or higher
Native	11.0%	29.7%	30.9%	28.4%
Foreign-born	31.7%	22.5%	18.8%	27.0%

Source: U.S. Bureau of the Census

Figure 1: Patents and Immigration



Source: 2012 *Statistical Abstract of the United States*, author's calculations