

Surprisingly large amounts of capital are brought to Canada and Australia by "business" immigrants (and also by other immigrants); data are given in chapters 7 and 12.

Does discriminating by investment capital have indirect economic ill effects by displacing some otherwise desirable immigrants? It is hard to imagine any other group of persons who embody a more valuable amount of human capital on average than those who go into business for themselves, and therefore I think that this question may be answered straightforwardly in the negative.

There is an ethical question about whether it is acceptable to discriminate on the basis of wealth. The question is at base identical to the question about the ethics of discrimination on the basis of human capital, except that financial wealth seems a less attractive and less "meritorious" characteristic. The issue reduces to whether a nation may use its immigration policy to do well by itself or whether it is unethical to use such a policy for national ends even if the policy thereby maximizes the welfare of the world as a whole. (And it does not take very many or very strong assumptions to make an argument that a wealth-discrimination policy really does maximize world economic welfare.) If the answer is "yes," then it makes sense to separate the decision about this discriminatory policy from the decision about whether a certain number of poor or uneducated people should also be admitted as charity (though keeping in mind that such people also are likely to have a positive effect upon natives on balance, though less so than people with more capital or education).

When one questions whether an asset-discrimination policy is ethically acceptable, other general questions arise: Is it unethical for a merchant to sell a piece of merchandise to a rich person when a poor person would buy the merchandise at the same price or for slightly less? Would a decision to sell to the poorer person constitute an ethical act vis-à-vis the richer person? In what respects is a state like or unlike an individual or a business firm in its "business" actions? (Here we must keep in mind that "economic" immigrants and not refugees are the subject of discussion here.)

I am well aware that if quoted out of context the discussion in this section, as well as in neighboring sections, would produce the impression that the author is hardhearted and/or nationalistic. But I believe that dispassionate analysis shows these policies to increase welfare for disadvantaged as well as advantaged persons, in the long run.

Recommendation: Give preference to applicants with financial assets, subject to ethical veto. If direct investment can be made a criterion, that would be an improvement.

Selling Foreigners the Right to Immigrate²

To suggest selling the right of immigration into the US to the high bidders inevitably is to label oneself an inhumane brute, or an "ivory tower" theorist, or both. Selling admission smacks of trafficking in human flesh. And of course such a scheme will not be politically feasible in the foreseeable future. But perhaps even those who will immediately reject the idea out of hand may agree that there is pedagogical value in studying a radical plan for the light it may throw upon more conventional schemes.

Please notice that it is reasonable to compare this scheme against other quota systems; comparison to an open-border system is outside the present frame of discussion, in part because an open border is vastly less likely than even an auction scheme.

An auction plan clearly promises economic benefits to Americans. Additionally, one can see (if one gets past the instinctive revulsion) that this plan also is less arbitrary, and thus fairer, than the existing policy as well as most alternative policies, and it can also improve the lot of the residents of the countries of origin more than other policies.

The right to immigrate has been sold before, but (so far as I know) only in the form of bribes to officials rather than as a publicly stated explicit policy. (A white market rather than a black market is under consideration here, of course.) And some countries already have policies tantamount to selling admission when they offer low taxes to induce persons to reside there, as do Monaco and Caribbean countries, though perhaps the lesser demand for immigration into those countries compared to the US makes the situation different there. Belize had a plan to sell citizenship for a \$12,500 payment and a \$12,500 government bond purchase (*New York Times*, 25 March 1986, p. 2). And Canada has been waging an ardent campaign to lure Chinese businessmen fleeing Hong Kong — especially those willing to invest a quarter of a million Canadian dollars or more in a job-creating business (*Washington Post*, 8 March 1986, p. A11).

I hope to show that this plan is better than other quota plans with three key tests: (1) US natives' incomes, (2) fairness, and (3) welfare of people in sending countries.

It should be noted that though the use of a market to allocate immigrant admissions seems peculiar to non-economists, this approach is almost second nature to economists, and they are quick to promote it. Indeed, the general scheme I suggest was invented independently by at least two other writers (Becker, 1987; Chiswick, 1982), and surely would be re-invented again and again if more economists were to address the problem.

Benefit to natives

An auction policy would have a better effect upon the incomes of US natives than does any other policy because it will efficiently identify those potential immigrants who have an especially large capacity to produce goods of high economic value while working in the US. A point system also discriminates among potential immigrants by their economic worth. But a system of rationing by auction has all the best features of a point system and more, because it *self-selects* persons who have the best chance to make an economic success. Those persons can and will take into account not only their occupations and the demand for them, but also their talents in their occupations, their willingness to work hard for success, and other characteristics that cannot be easily established objectively.

Charging a fee for admission would also accentuate the tendency for immigrants to move when they are young and strong, because admission has higher (discounted) future lifetime value for young persons than for older persons, *ceteris paribus*.

The analysis of age and sex distribution in various admission categories in Australia in chapter 3 (figure 3.10) reinforces the recommendation that, from the point of view of the economic welfare of natives, self-selected immigrants – in comparison to family-reconstitution immigrants – are particularly desirable, because they arrive just at the beginning of their work lives, with the maximum number of years before them during which they will be paying taxes and not receiving old-age assistance from the public coffers.

For the above reasons, an auction puts additional purchasing power into the hands of natives. The amounts of money would not be insignificant relative to other aspects of the governmental budget. Becker (1987) calculated that at \$20,000 per immigrant – the discounted present value of a \$2000 “profit” by an immigrant each year, compounded at 10 percent – half a million immigrants would bring in ten billion dollars each year.

Persons who are willing to pay a lot to enter the country must believe that the opportunity to do so will be valuable to them. For a few, this may just be an opportunity to live a pleasant and free life. But for the many it would represent an opportunity to make a lot of money in the large and rich market that is the US. And an immigrant who makes a lot of money for herself or himself will accordingly be a large benefactor of the community by providing jobs and contributing taxes (putting aside unusual cases such as Mafiosi). To such a person, a large payment to purchase a ticket of immigration would simply represent an investment, which would often be accompanied by further investment in business assets. This further investment would generally be an additional benefit to natives.³

Furthermore, by benefiting natives an auction plan should make additional immigration more popular among natives. It might even increase the number of unwealthy immigrants, too, by improving public attitudes toward immigration and thereby leading to larger total quotas.

Evidence that emphasis on economic factors is the high road to successful immigrant adjustment comes from a recent study in Australia of what are known as General Eligibility Migrants, those who are admitted on the basis of personal characteristics rather than being refugees or relatives of families residing in Australia. Their “high incidence of employment success leading to economic viability, and acceptance in the workplace, justifies the emphasis placed on economic factors in the migrant selection process” (Northage & Associates, 1983, p. 57). And Canadian data show that Asian immigrants who arrived between 1960 and 1969 have done much better economically relative to immigrants from the UK and Canadian-born persons than have Asian immigrants who arrived between 1970 and 1979; a larger proportion of Asian immigrants in the latter period were admitted on the basis of family reconstitution than in the former period, whereas for immigrants from the UK (and of course for the Canadian-born) this was not the case, showing that family reconstitution is significantly less good a policy as selection on economic characteristics (see table 4.18).

Another virtue of an auction plan: selling admission avoids “chain” migration whereby an entrant later obtains admission for relatives through the preference system. If it were known in advance that relatives would only be allowed if the admission fee were paid for them, too, then a potential immigrant could take that possibility into account when deciding whether to immigrate, and there would no longer be “humanitarian” grounds for a preference system except for spouse and children, neither of which have the same degree of uncertainty and multiplicability as other relatives.

Fairness

The present scheme is in no way “fair.” It does not give to all potential immigrants the same opportunity to be admitted to the US. Only a worldwide lottery would be fair in that sense (though perhaps a lottery might only need to include those people who indicate a desire to immigrate, which might not be many times greater than the present number of immigrants). Nor is the present scheme fair in the sense of giving all persons with the same qualifications the same opportunity. Persons in some countries (say, Canada or Great Britain) have a much better chance of admission than do similar persons in other countries (say, Malaysia or India). And an even more serious departure from fairness is that the

relatives of persons in the US have a vastly greater chance of being admitted than do similar persons without relatives; this is a case of "connections" on the broadest scale imaginable, a departure from fairness which is not mitigated by the fact that we may have good social reasons for such a policy. An auction does not discriminate in such fashion, but instead discriminates according to the standard of a market-oriented society — ability and willingness to pay. Hence the auction scheme may be seen as a gain in fairness.

If we think there is something good about the present discriminatory scheme, we could use it within an auction system to identify a subclass of people who would be allowed to enter for less than the full amount paid by others — an amount which we would know is more than the special-preference people would pay, given that they would not be among the high bidders. Hence the system would benefit them by giving them a good which is worth more on the market than they are willing to pay for it.

It should also be remembered that if the US admits some poor and unskilled persons by means of a complex system of family ties plus allocation by length of time in the queue, other especially-worthy poor and unskilled persons are implicitly denied admission. There is nothing "fair" or "charitable" in such a system. It would probably be easier to identify and assist the most needy persons if charity were to be given directly, in money, out of admission-fee proceeds, with a consequent increase in total "fairness" and benevolence, no matter how one would wish to define those terms.

So in brief, an auction scheme is not less fair than the present scheme.

Reluctance to ration admission to the US by ability and willingness to pay for it would seem to stem from the same psychological root as does our reluctance to use the market to ration such other "merit goods" as food and gasoline in times of shortage, in contrast to our everyday policy of allocating according to readiness to pay. But in these latter cases the aim of an equal-ration policy is to ensure that everyone in a well-defined population gets the same amount so that none suffers injury to health. The auction plan is closer to rationing health care on the battlefield, where the aim is to try to provide care to those who need it most. But to apply any sort of merit-good principle to immigration is to intermix two objectives at the expense of both (though perhaps with the very purpose of confusing the issue so as to make it easier to attain a hidden objective — fewer immigrants of any kind).

Welfare of the sending countries

What about the loss to sending countries of some of their most productive people? Clearly those countries' residents who will win the auction and

emigrate have their welfare improved, because (ex ante) they plan to earn more abroad than at home. And if there are no externalities and no one is injured at home by the migrants leaving, then allowing them to emigrate increases the overall welfare of the sending country prior to the emigration.

If there *are* externalities — for example, the alleged positive externalities derived from physicians (see chapter 14) — and if the US is concerned with not inflicting such externalities upon the sending countries, it can easily compensate the sending countries for the amounts of those externalities with only a small portion of the fees collected in the auction, because it is most unlikely that the externalities are anywhere near the size of the fees that would be paid.

Objections to an auction plan

Some will object: even though the US could best help sending countries with this scheme together with "compensation" for talented émigrés, the US (they say) simply *will not in practice* send the fees abroad, and therefore the scheme will turn out to be exploitative. Perhaps. But this objection leaves the domain of the economic analyst, and enters into the domain of the practitioner of the feasible; let it be argued out there.

One might wonder whether an admission-fee plan would result only in high-skill people immigrating legally, thereby making the US even more inviting than at present for low-skill persons to enter illegally, with the attendant problems of "lawlessness." So it would be. But a guestworker program *in tandem with* an admission-by-fee plan would be a businesslike overall policy, and would avoid the lawlessness problem almost completely. Such a policy would, however, require greater sanctions against any illegals that did come anyway — perhaps most of them high-skill persons — because allowing them to remain illegally would be quite unfair to those who pay high admission fees, and also would spoil the market. If immigration policy were to be put on such a businesslike basis, it would then be less painful than at present to enforce such laws on the books as those that require deportation if the immigrant becomes a welfare burden.

One may also wonder whether such a policy would result in only the very rich being admitted. This need not be so, for three reasons. First, very rich persons may prefer to remain in their home countries because of lack of felt need for economic advance.⁴ The absence of revelations of bribes to obtain visas may indicate that this is indeed so. Second, the auction plan could enable persons without liquid assets to gradually repay their admission fee, adjusted for carrying costs, out of future yearly income; it would be collectible along with their income tax, in which case the immigrants need not be rich at the time of the auction. Third, the fee could be set quite low and still yield a profit on each entrant (in fact, a negative fee would break even, given the estimates made earlier in the book).

This scheme would seem to be more advantageous than Bhagwati's scheme mentioned earlier, because there are no complications in collection. Furthermore, by allowing immigrants to bid for places, it would identify those who would most benefit from entrance into the US, and who would most benefit the US. Bhagwati's scheme does not have these properties.

Managerial issues

Interesting management questions arise in connection with an auction policy. For example, should the US attempt to operate as a profit-maximizing monopolist? If so, the profit would be set far above "cost." Such a policy would require some agreement about the best estimate of "cost" — which is discussed in this book.

Another question is whether the same price should be set for all ages and both sexes. As long as policies to deport those who become welfare charges would be enforced, the fee probably could be the same for each married couple irrespective of age. There would probably need to be a different fee for single persons, but I have not yet worked out the logic of such differential fees.

Yet another question is how to estimate demand for entrance. Perhaps this would best be done by adjusting the "quota" from quarter year to quarter year.

If the plan were to aim at maximizing revenue subject to a numerical constraint on the number of immigrants, a price-discriminating lottery would probably be most effective. One method would ask persons to bid for inclusion in the quota, with the persons's actual bid to be paid by each bidder above the quota cut-off. (Because the likelihood of adoption of such a scheme is so low, I shall not pursue theoretical analysis of varieties of such bidding schemes.) Or, it might be decided that it would be unfair to charge different fees to different people, in which case the amount bid by the lowest successful bidder would be paid (noting that higher bidders would be economically more desirable for reasons discussed earlier).

Because of the greater productivity in the US of those who are willing to pay more for the opportunity to immigrate than for those who will not bid as high, the US could surely improve the lot of a larger number of poor persons in the countries of origin than at present by treating the fees as a charity fund for those poor persons, even if only part were sent back. To put it a bit more precisely: specify any number of poor and unskilled immigrants who might be allowed entrance, and estimate their gains by immigration (assuming there are gains, which there might not be). It would be possible for the US instead to admit the same number of high bidders, remit to those poor persons who would otherwise have come the full value of their potential gains in the US, have something left over for US citizens,

and also improve the lot of the high-bidding immigrants. Such a procedure would come close to the economist's dream: a "Pareto improvement" in which everyone benefits.

Will the plan ever be politically feasible?

One naturally wonders whether such a policy is so unfeasible politically as not even to be worth discussion. I think not. Furthermore, politically unfeasible schemes often serve as a useful frame of reference for schemes that are more politically realistic at the moment. Furthermore, schemes that seem outlandish when first proposed can later become feasible, as time passes and political and economic water flows under the bridge; the education voucher system is such an example.

Summary of plan

If a country is to ration admission by the amount of human or financial capital that the potential immigrants will bring to invest, why not go even further and simply auction off the right to immigrate, with the proceeds of the auction going to the public coffers?

The policy of rationing admission by sale to the highest bidder embodies many of the best features of such policies considered earlier, such as admission by education and admission by capital investment, without suffering from many of their defects. At the same time it would permit the US to devote at least as much economic resources to charitable welfare as under less market-oriented allocation policies.

The key to the efficiency of an auction system is that individuals are likely to assess their own economic capacities better than can an arbitrary point system; the latter process does not take into account many of the most important characteristics because they are not identifiable with demographic criteria. Those persons who will stake their own money upon correct identification of such capacities are *ipso facto* the best possible bets to be high economic producers in the US.

Recommendation: Adopt an auction plan.

NOTES

- 1 For more information on the maquiladora program, see: "Mexican factories along the US border succeed despite criticism on both sides," *Wall Street*

Journal, 19 November 1985; Mexican border towns boom, *Washington Post*, 20 April 1986.

- 2 [T]here is much more agreement among economists than laymen think there is: I sent the first draft of this essay to Melvin Reder, whose credentials include the first modern theoretical paper on immigration way back in 1963. Reder replied that he had been thinking of a similar scheme but had not gotten around to writing it up; he offered his support, and some useful new twists. Then I mentioned it to Mark Rosenzweig, who had been the economics co-director of research for the Select Commission on Immigration and Refugee Policy. Rosenzweig said he had proposed a similar scheme to the Select Commission. Later I sent it to Milton Friedman, because this scheme is so consonant with many of those he has put forth. Friedman replied:

Re your auction proposal, it does of course appeal to me, but the reason I write back promptly is that I believe this is one of those cases where when competent economists turn their attention to a particular problem, in this case immigration, they are likely to come up with the same solution. Unless my memory fails me, both Gary Becker and Barry Chiswick have suggested the idea of auctioning quotas.

And indeed, Chiswick had suggested a very similar scheme as part of a long paper published in 1982, and Becker has been circulating a preliminary draft on the topic.

- 3 The qualification "generally" refers to the paradoxical possibility that though by almost any test a larger supply of capital is beneficial in the short run, in the longer run it might have a deleterious effect by reducing the impetus to individuals putting forth vigorous economic activity. This is the argument against foreign aid, of course — a striking apparent contradiction between standard microeconomics and the policy prescriptions of some of the most distinguished microeconomists — and conceivably it might apply also to the human capital that is the subject of this chapter. On the other hand, additional human capital also may have various indirect positive consequences in the long run, as shall be discussed here.
- 4 Business people leaving the home country — for example, Sweden — to avoid high taxes is not relevant here, because those persons can head for tax shelters, where the lack of earning opportunity is not relevant.

17 Conclusions and Summary of Main Findings

This book analyzes the economic effects upon natives of legal immigrants who have come to the US in order to improve their economic lot. The findings are intended to cast additional light upon a national debate that has been going on for more than a century, and in which there is now high interest: how many immigrants, of what kinds, should the US admit each year? My general conclusion, based on the various analyses and findings, is: more than at present, and chosen more for their economic characteristics and less on the basis of family connections.

Though the general conclusion offered here runs contrary to much public opinion, it is mostly in consonance with the economic literature, and the overwhelming consensus of the most respected American economists agrees, as documented in appendix C.

The findings and conclusions are summarized here in this final chapter. The introduction contains an idealized analysis, plus some reflections that may be relevant to those who may read with an eye to future research.

Immigration Theory and Trade Theory (chapter 2). Contrary to intuition, the theory of the international trade of goods is quite inapplicable to the international movement of persons. There is no immediate large consumer benefit from the movement of persons that is analogous to the benefit from the international exchange of goods, because the structure of supply is not changed in the two countries as a whole, as it is when trade induces specialization in production. Goods that are traded internationally are, in the usual case, produced by workers who are paid much less in the producing country than they could earn in the country where the goods are sold and consumed. The inter-country difference in that labor cost — which can be very great — is shared among the consumer (who pays a