Economic Report of the President

Transmitted to the Congress February 2005

Together with the Annual Report of the Council of Economic Advisers

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THE ANNUAL REPORT
of the
COUNCIL OF ECONOMIC ADVISERS

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C H A P T E R 4

Immigration

In recent decades, the United States has experienced a surge in immigration not seen in over a century. Immigration has touched every facet of the U.S. economy and, as the President has said, America is a stronger and better Nation for it. Immigrants today come from countries around the world and work in diverse occupations ranging from construction workers and cooks to computer programmers and medical doctors.

Immigrants have settled in all parts of our Nation and have generally succeeded in finding jobs quickly, helped in large measure by the flexibility of the U.S. labor market. One indicator of this success is that foreign-born workers in the United States have a higher labor force participation rate and lower unemployment rate than foreign workers in most major immigrant-receiving countries.

While flexible institutions may speed the economic integration of the foreign-born, the distribution of the gains from immigration can be uneven. Less-skilled U.S. workers who compete most closely with low-skilled immigrants have experienced downward pressure on their earnings as a result of immigration, although most research suggests these effects are modest. Also, communities contending with a large influx of low-skilled immigrants may experience an increased tax burden as immigrant families utilize publicly provided goods such as education and health care.

U.S. immigration policy faces a complicated set of challenges, perhaps more so now than ever before. Policy should preserve America's traditional hospitality to lawful immigrants and promote their economic contributions. Yet these goals must be balanced with the Nation's many needs, including the imperative for orderly and secure borders. These challenges have only grown in a post-9/11 world. The persistence of undocumented immigration and problems with employment-based immigration suggest that the United States needs to better enforce immigration laws and do more to address the demand for immigrant workers and the need for national security. The President's proposed Temporary Worker Program and increased funding for internal enforcement recognize these problems and would implement necessary reforms.

The key points in this chapter are:

- The flexibility of the U.S. labor market helps immigrants succeed.
- A comprehensive accounting of the benefits and costs of immigration shows that the benefits of immigration exceed the costs.
- Much immigration occurs outside the realm of immigration law; a temporary worker program and better enforcement of current laws would be expected to result in many improvements, including a reduction in the number of undocumented immigrants.

Immigration and Economic Growth

Immigrants have contributed enormously to U.S. population and employment growth. The foreign-born have grown among all occupations and regions of the country and have spread beyond traditional immigrant centers and into areas where previously few immigrants had lived. Following common practice, this chapter uses the terms *immigrant* and *foreign-born* interchangeably and adopts the Census Bureau's definition of foreign-born to mean any person who is in the United States legally or illegally who was not a U.S. citizen at birth (not born in the United States or of U.S. parents). This usage differs from that of the U.S. Citizenship and Immigration Services, which uses the term *immigrant* to refer to a subset of the foreign-born population, namely *lawful permanent residents* (see below for an explanation of the different immigrant categories).

Immigrants and Employment Growth

The foreign-born are associated with much of the employment growth in recent years. Between 1996 and 2003, when total employment grew by 11 million, 58 percent of the net increase was among foreign-born workers. That immigrants contributed so much to net employment growth is not surprising: immigrants contributed almost as much to growth in the working-age population (51 percent) as they did to growth in employment. Almost all employment growth among immigrants was among those who arrived in the United States between 1995 and 2003. (Employment growth in this chapter is based on the Current Population Survey or "household" survey because it provides information on place of birth and citizenship status—see Box 1-2 in Chapter 1 of the 2004 *Economic Report of the President* for a discussion of the payroll versus household surveys.)

While employment of the foreign-born grew among all occupations, immigrant contributions to job growth were especially large in the service occupations and precision production, craft, and repair (a category that includes mechanics, repairers, and construction workers) (Table 4-1). In some occupations, natives were leaving even as the foreign-born were entering. For instance, employment of natives as operators, fabricators, and laborers fell by 1.4 million between 1996 and 2002, while employment in such occupations grew by 930,000 among the foreign-born. This should not be taken as evidence that the foreign-born displace native workers; rather, it reflects the fact that immigrants have made up all of the growth in the low-skilled workforce. As education levels rise among younger U.S. workers and older U.S. workers retire, the number of low-skilled natives is declining.

TABLE 4-1.—*Foreign-Born Share of Employment Growth by Occupational Category, 1996 to 2002*

Occupational category	Employment growth (thousands)		Foreign-born as percent of total	Occupation examples
	Total	Foreign-born		
Total	9,667	5,575	57.7	(1)
Executive, administrative, and managerial	2,801	504	18.0	Managers, administrators
Professional specialty	3,158	852	27.0	Doctors, scientists, teachers
Technicians and related support	585	181	30.9	Health and science technicians
Sales	837	480	57.3	Salespeople, cashiers
Administrative support, including clerical	-177	296	(1)	Clerks, secretaries, bookkeepers
Service	2,032	1,253	61.7	Janitors, kitchen workers, grounds workers
Precision production, craft, and repair	1,044	900	86.2	Mechanics, construction workers
Operators, fabricators, and laborers	-518	930	(1)	Machine operators, bus and truck drivers
Farming, forestry, and fishing	-97	178	(1)	Farmers, farm workers

[1] Not applicable.

Note: Since data in this table end with 2002, total growth here is less than the 11 million increase mentioned in the text, which is measured from 1996 to 2003. Data relate to persons aged 16 and over.

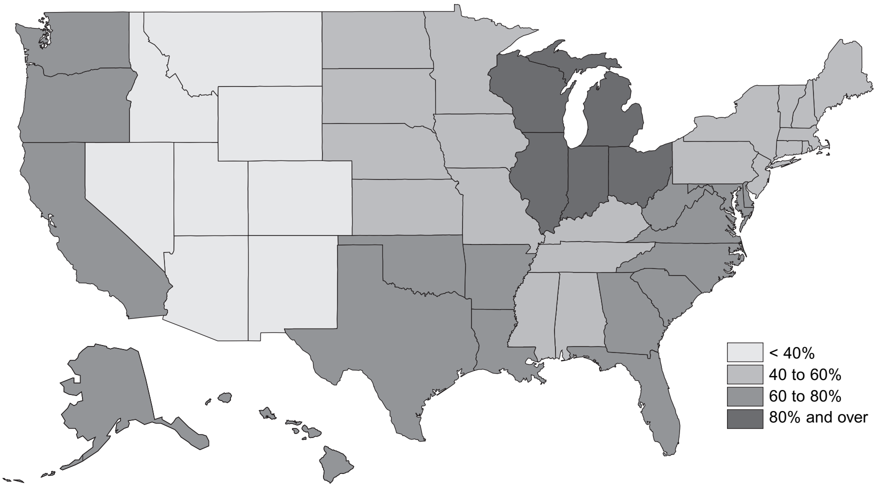
Source: Department of Labor (Bureau of Labor Statistics).

Immigrants and Regional Growth

Immigrants are not spread evenly across the United States but instead are concentrated within certain states and cities. In 2000, 59 percent of the foreign-born lived in just four states: California, New York, Texas, and Florida, compared with only 29 percent of natives. Fully 21 percent of the immigrant population lived in the metropolitan areas of New York and Los Angeles alone, compared with 5 percent of the native-born. The foreign-born are concentrated in certain areas, not only because of the economic opportunities in these regions, but also because new immigrants often prefer settling in cities in which their fellow countrymen already reside. This enables new immigrants to live among people who share their language and culture, as well as to use ethnic networks to find jobs and learn about life in the United States.

While recent immigrants continue to settle disproportionately in cities and states with large immigrant populations, both recent and earlier waves of immigrants have increasingly pursued economic opportunities in areas where few immigrants had lived previously. From 1996 to 2003, some of the fastest job growth among the foreign-born took place in regions of the country where few immigrants had worked at the beginning of the period (Chart 4-1). In the East North Central region (Indiana, Illinois, Michigan, Ohio, and Wisconsin), for example, immigrants accounted for 84 percent of employment growth between 1996 and 2003, even though the foreign-born were only 5 percent of workers in this region in 1996, compared to 11 percent nationwide. Even in the East South Central states (Alabama, Kentucky, Mississippi, and Tennessee), immigrants were only 2 percent of workers in 1996 but accounted for 47 percent of job growth during this period.

Chart 4-1 **Foreign-Born Share of Employment Growth by Census Division, 1996 to 2003**
The foreign-born contributed 58 percent of growth in employment from 1996 to 2003.



Note: Data relate to persons aged 16 and over.
Source: Department of Labor (Bureau Labor Statistics).

How Many Immigrants?

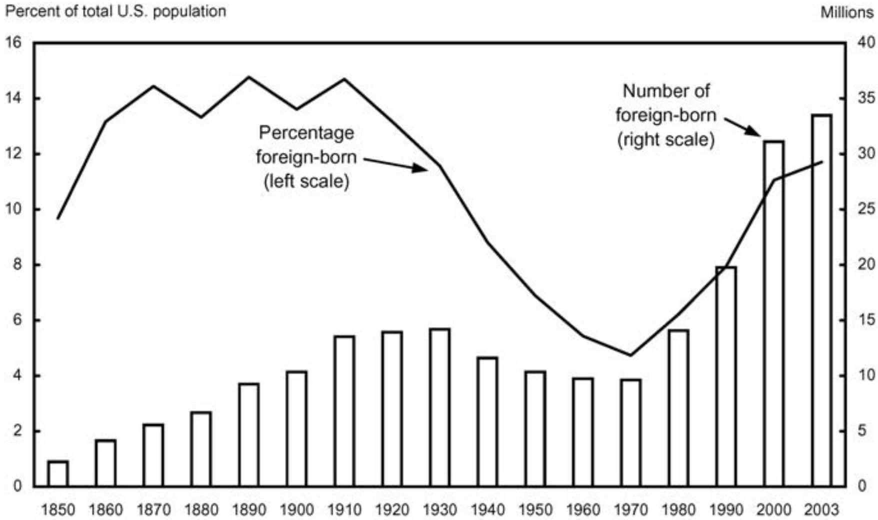
The foreign-born have contributed to population growth almost as much as they have contributed to employment growth. Population growth is the combination of natural growth (births minus deaths) and net immigration (immigrants minus emigrants). Since 1970, immigrants have constituted an increasing share of the rise in population. The U.S. population grew by 21.6 million between 1996 and 2003, with 41 percent of that increase from immigration.

By 2003, 33.5 million residents of the United States had been born in other countries, and the foreign-born share of the population had risen from 5 percent in 1970 to 12 percent in 2003 (Chart 4-2). Nonetheless, as a share of the population, the foreign-born are still less prevalent than at their peak in 1890, when they accounted for 15 percent of U.S. residents.

Legal and Illegal Immigrants

The 33.5 million immigrants living in the United States can be divided into four groups: *naturalized American citizens*, immigrants who have become citizens by passing a citizenship test and fulfilling other requirements; *permanent residents*, immigrants who have "green cards" and the legal right to reside permanently in the United States but have not become naturalized citizens; *temporary residents,* people admitted to the United States temporarily for a specific purpose, including visitors, students, and temporary workers (referred to as *nonimmigrants* by immigration authorities); and *undocumented*

Chart 4-2 **Number and Share of Foreign-Born in U.S. Population, 1850–2003**
In 2003, the number of immigrants reached a record level, but the foreign-born as a percent of total U.S. population was still below its peak of 15 percent in 1890.



Note: Data assume no undercount of foreign-born. Including an estimated undercount, the number of foreign-born in 2003 was about 34.9 million.
Source: Department of Commerce (Bureau of the Census).

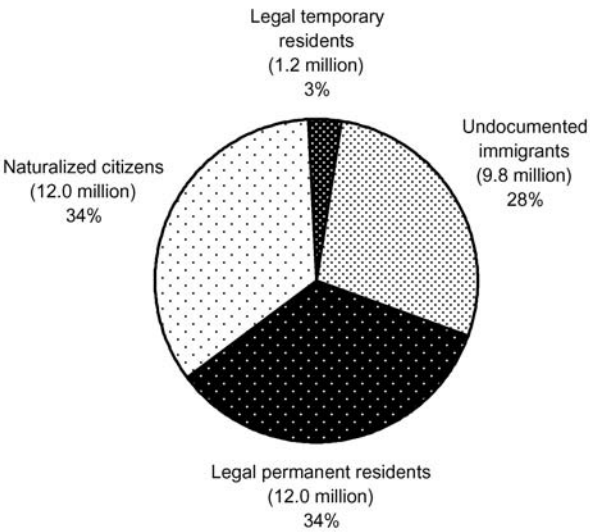
immigrants (also called *illegal* or *unauthorized immigrants*), people residing in the United States illegally.

The number of foreign-born in the United States is measured primarily through the decennial Census and, since 2000, updated annually using the American Community Survey. The Census is believed to undercount the number of foreign-born, especially among undocumented immigrants. Taking into consideration the undercount in the undocumented immigrant population and other factors, a 2004 study estimates that the foreign-born population was 34.9 million, or 1.4 million higher than the official 2003 estimate. Chart 4-3 illustrates this study's estimated breakdown of immigrants by their immigration status. Legal non-citizens are about 38 percent of immigrants, with 12.0 million permanent residents and 1.2 million temporary residents. An additional 34 percent are naturalized citizens, and the remaining 28 percent are undocumented immigrants.

From Which Tempest-Tossed Shores?

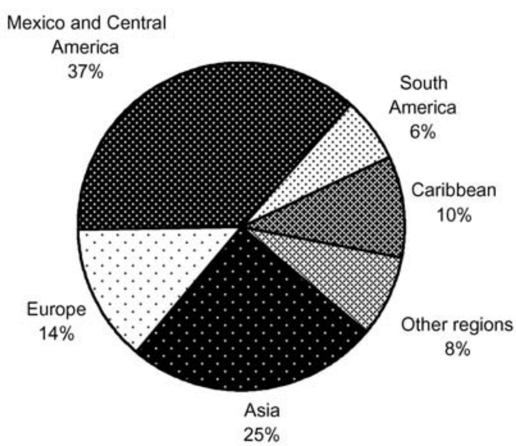
When Emma Lazarus wrote *The New Colossus* in 1883, immigrants were overwhelmingly from Europe. Only a handful of immigrants were from Asia or Latin America. The situation is reversed today. Over half of the foreign-born population was born in Latin America (Chart 4-4). Of those from Latin America, over two-thirds are from Mexico or Central America. The next

Chart 4-3 **Foreign-Born Population by Immigrant Status, 2003**
Of the 34.9 million immigrants estimated to be in the United States in 2003, about 72 percent were in the country legally.



Source: Urban Institute.

Chart 4-4 **Foreign-Born Population by World Region of Birth, 2003**
The majority of the foreign-born come from Mexico and Central America and Asia.



Source: Department of Commerce (Bureau of the Census).

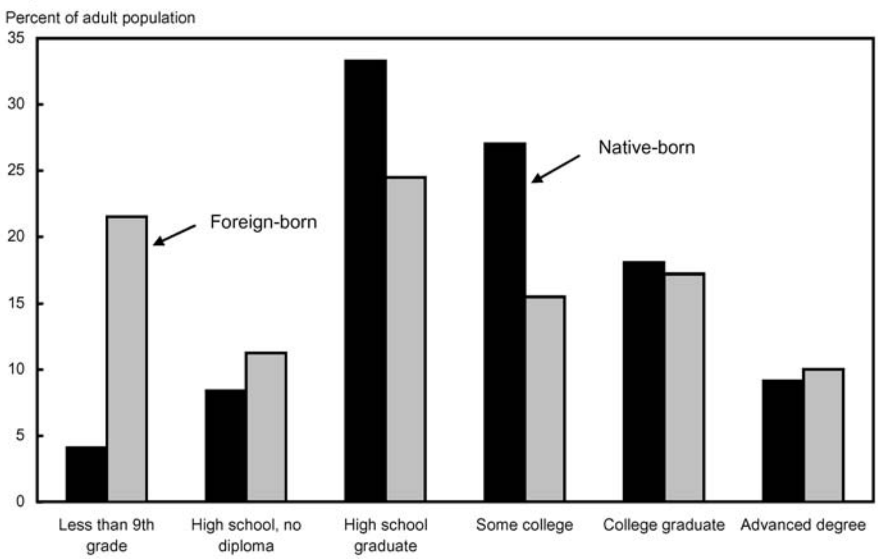
largest group of immigrants was born in Asia, with China, the Philippines, and India the most prevalent Asian countries of birth. An additional 14 percent of the foreign-born come from Europe, and the remaining 8 percent were born in other areas of the world (mainly Africa, Oceania, and Canada).

Immigrant Education and Earnings

The foreign-born are disproportionately represented among those with little schooling. Over one-fifth of immigrants have less than nine years of education, compared with only 4 percent of the U.S.-born population (Chart 4-5). The foreign-born are also slightly overrepresented among people with an advanced degree (a master's, professional, or doctoral degree): 10 percent of the foreign-born, but only 9 percent of U.S. natives, hold an advanced degree. This difference in advanced degrees is greater for men. Although native- and foreign-born women are equally likely to hold an advanced degree, 12 percent of foreign-born men but only 10 percent of native men have an advanced degree.

Schooling levels are correlated with region of origin. Immigrants from certain world regions tend to be highly educated while those from other world regions tend to have little schooling. For example, 25 percent of Asian-born men in the United States hold advanced degrees, whereas only 10 percent

Chart 4-5 **Educational Attainment, 2003**
The foreign-born are more likely than natives to lack a high school diploma or to hold an advanced degree.



Note: Data relate to persons aged 25 and over.
Source: Department of Commerce (Bureau of the Census).

failed to graduate from high school. In contrast, only 2 percent of male immigrants from Mexico or Central America have a master's degree or higher, while 42 percent completed less than nine years of schooling and an additional 22 percent attended high school but did not graduate.

Partly as a result of lower average education levels, the typical immigrant earns less than the typical native. In 2003, median immigrant earnings were $511 per week, or 74 percent of the median earnings of natives (Table 4-2). Within education groups, immigrants earn 82 to 94 percent of natives' wages, with the smallest earnings gap among college graduates. This earnings gap narrows over time as most immigrant cohorts experience faster earnings growth than natives with similar education.

TABLE 4-2.—*Median Weekly Earnings by Educational Attainment, 2003*

Educational attainment	Native-born	Foreign-born	Foreign-born as percent of native-born
All levels	$688	$511	74
Less than a high school diploma	430	369	86
High school graduate, no college	569	467	82
Some college, no degree	647	576	89
College graduate	971	909	94

Note: Data relate to full-time wage and salary workers aged 25 and older.
Source: Department of Labor (Bureau of Labor Statistics).

As a result of lower education levels and earnings and larger families, immigrants are more likely than natives to be poor. In 2003, 16.6 percent of immigrants were poor compared to 11.5 percent of U.S. natives. Despite higher poverty rates, immigrants are more likely to participate in the workforce than natives, with 78 percent of male immigrants with less than a high school education participating in the labor force compared to 47 percent of their native counterparts. Among undocumented male immigrants, 96 percent are estimated to participate in the labor force.

The Role of Labor Market Institutions

U.S. immigrants are much more likely to work than immigrants in most other industrialized nations, a distinction which may in part be due to labor market institutions. Labor market institutions refer to the constraints that govern the employer-employee relationship, including the policies that influence the firm's decision to hire and the worker's decision to work. The demand for workers is influenced by the regulations that determine employment costs, including wage floors set by unions or the government, non-wage costs such as payroll taxes, and laws that limit turnover such as rules against firing workers. The supply of workers is likely affected by the institutions that provide welfare and unemployment benefits, with more generous programs associated with fewer incentives to work and hence a lower labor supply or more unemployment.

The United States is regarded as having relatively flexible labor markets, which allow individual employers and workers greater discretion in setting working conditions. This contrasts with highly-regulated labor markets in which wage-setting and benefits determinations are often centralized. This section compares the United States with some other Organization for Economic Cooperation and Development (OECD) countries to see whether there is a correlation between the extent of labor market regulations and the unemployment rate of immigrants relative to natives.

Institutions and Immigrant Unemployment

Labor market regulations influence the level and flexibility of wages and affect new workers' chances of finding employment. In standard economic analysis, unemployment results when total worker compensation—the sum of wages and benefits—exceeds the market rate. This happens either when compensation is fixed and cannot fall in response to increased labor supply, or when wage floors and mandated benefits set worker compensation at a level above the market rate. In both cases, immigrants may be more likely than natives to be unemployed as a result.

If immigrants are less productive than natives, then regulations that increase compensation for entry-level workers would be expected to affect foreign workers more than natives. Immigrants may be less productive on their initial arrival because they may lack the language skills, educational background, or institutional knowledge that natives can draw upon to enhance their job performance. A lower entry-level wage could compensate for these shortcomings and would be expected to be followed by faster wage growth as the immigrant learns new skills and gains experience. Several studies have found that lower initial earnings among immigrants are in fact correlated with higher rates of earnings growth.

Rules against firing workers are common in more-regulated markets and can reduce new hiring, especially of immigrant workers. Immigrants might initially be perceived as more risky hires because employers may not know how to evaluate immigrants' educational backgrounds, for example, or may not be able to gauge their language proficiency. As a result, immigrants may have to search longer for a job than would otherwise similar native workers.

Immigrants may overcome communication, cultural, and other barriers (including discrimination) by starting their own businesses. Entrepreneurship, however, may be out-of-reach for some immigrants in highly-regulated markets, which are often characterized by high business start-up costs and less access to capital. At the same time, generous unemployment insurance in more-regulated economies and welfare programs for refugees and asylum seekers may discourage immigrants from looking for jobs in the first place.

The composition of employment growth is another important difference between the United States and some Western European countries that may influence immigrant unemployment rates. In the United States, the fast-growing U.S. service sector provides greater opportunities to new workers than does the service sector in many other countries. In Germany, where immigrants are disproportionately employed in the service sector, the sector's relatively slow growth may have limited immigrant job opportunities. The lack of growth in low-skill service jobs could simply be another consequence of high-cost and high-tax markets, although some researchers point to cultural or lifestyle differences as limiting the demand for things like fast food.

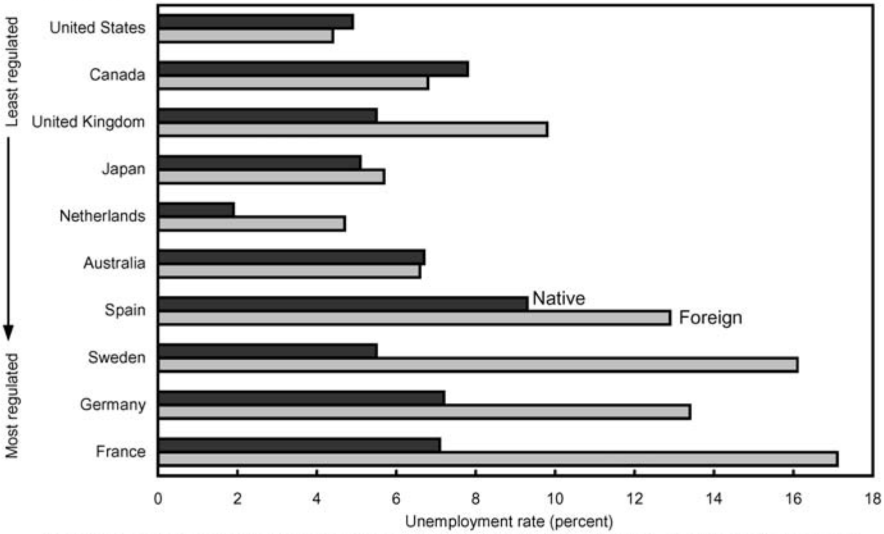
Immigrants in countries with highly-regulated labor markets tend to have higher unemployment rates relative to natives than immigrants in countries with flexible labor markets, such as the United States. Chart 4-6 shows the average unemployment rates of native versus foreign males in major immigrant-receiving OECD nations during 2000-2001. The countries are ranked according to the competitiveness of their labor markets, with less-regulated countries at the top of the chart and more-regulated countries at the bottom. Immigrant unemployment rates are generally lower and more similar to native unemployment rates in less-regulated labor markets, such as in the United States, than in highly-regulated labor markets such as those in Spain, Sweden, Germany, and France. Male immigrants in France, for example, had a 17 percent unemployment rate in 2000-2001, 10 percentage points higher than natives. Male immigrants in the United States, meanwhile, had a 4.4 percent unemployment rate, 0.5 percentage points lower than U.S. natives.

Unemployment Rates Among Immigrant Youth

Labor market inexperience may exacerbate the negative consequences of rigid labor market institutions, perhaps more so for immigrants than natives. Chart 4-7 compares unemployment rates among foreign and native youth (aged 15 to 24) for a subset of the countries above. Relative unemployment rates among immigrant youth (both men and women) are higher in heavily regulated labor markets. In Sweden, immigrant youth have more than twice the unemployment rate of native youth. In France, foreigners aged 15–24 have a 30 percent unemployment rate, compared to 18 percent for similarly aged natives.

Chart 4-6 **Male Unemployment Rate by Nativity, 2000–2001**

Less-regulated countries tend to have lower unemployment rates for immigrants relative to natives.

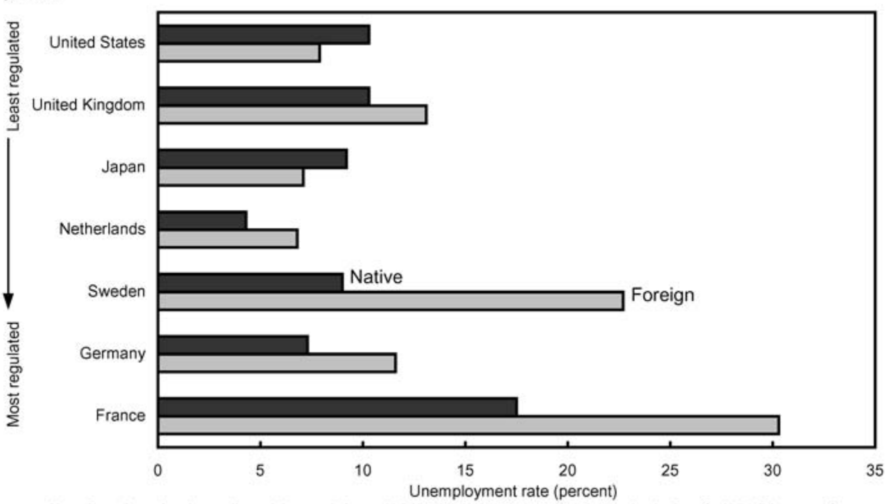


Note: Countries ordered according to labor regulation rankings in *IMD World Competitiveness Yearbook*. Data for Australia, Canada, and United States are for foreign-born versus native-born; all other countries are for foreigner versus national. Data are for males aged 15–64 (15 and over for Australia, Canada, and Japan). Data for Canada are for 2001; for Japan, 2000.

Sources: Organization for Economic Cooperation and Development and Japan Ministry of Internal Affairs and Communications.

Chart 4-7 **Youth Unemployment Rate by Nativity, 2000**

Less-regulated countries tend to have lower unemployment rates for immigrant youths relative to native youths.



Note: Countries ordered according to labor regulation rankings in *IMD World Competitiveness Yearbook*. Data for United States are for foreign-born versus native-born; all other countries are for foreigner versus national. Data are for persons aged 15–24 (16–24 for United States).

Sources: Department of Commerce (Bureau of the Census), Organization for Economic Cooperation and Development, and Japan Ministry of Internal Affairs and Communications.

Caveats to Consider

Many other factors that vary across countries affect these statistics. While in the United States, "foreign" implies that the person was born abroad, that is not the case in Europe or Japan where "foreigner" refers only to those who are not citizens. Either group can be bigger depending on how much countries restrict access to citizenship; in some countries even second- and third-generation immigrants are not citizens. In Germany and Japan, for example, relatively few immigrants become citizens while much larger shares of immigrants naturalize in the Netherlands and Sweden. As a result of these differences and holding all else equal, foreigners in Germany would be more comparable to natives in Germany, shrinking the difference in the unemployment rates as compared with foreigners in the Netherlands and Sweden who would tend to be made up of relatively new immigrants.

Differences in immigration policies across countries also affect the comparison of immigrants' labor market outcomes. Australia, for example, admits the majority of its immigrants based on employment skills; its immigrants would be expected to be better prepared for the job market than would immigrants in countries which prioritize foreigners who are refugees or asylum seekers, or family members of natives and prior immigrants, as in the United States. Indeed, Australian immigrants have similar unemployment rates as Australian natives (Chart 4-6). U.S. immigrants also have low unemployment rates, however, even though U.S. immigration policy is principally based on family ties. The last section of this chapter describes U.S. immigration policy in more detail.

Benefits and Costs of Immigration

The gains from immigration are analogous to the gains from trade (see Chapter 8, *Modern International Trade*, for a discussion explaining how countries gain from trade). In classical trade theory, countries benefit from trading when they differ in some way. Similarly, the more different immigrants are from natives, regardless of whether they have fewer or more skills, the bigger are the economic gains from immigration. The skill composition of immigrants comes into play in other ways, however. First, it determines which native workers gain by immigration and which lose. Second, it determines whether immigration positively or negatively affects government revenues and expenditures.

Labor Market Impact of Immigration

Standard economic theory suggests that an increase in the supply of labor, such as an influx of immigrant workers, would be associated with lower wages, other things being the same. Empirical estimates of how much native wages fall in response to immigration, however, are typically small. The magnitude of the wage impact is mitigated by two factors: how substitutable immigrant workers are for natives and the response of existing factors of production such as capital and labor to the influx of immigrants.

If foreign workers are not substitutable for natives, then immigration would be expected to have little impact on the wages of natives. For example, an immigrant with unique skills, such as a highly specialized scientist, or an immigrant who speaks little or no English, is unlikely to compete directly with most U.S. workers. Instead, recent immigrants may be the most adversely affected by the inflow of more immigrants. A new immigrant with limited English skills, for example, will likely compete closely with other recent immigrants with poor English ability and in jobs that do not require institutional, technical, or advanced language skills, such as janitorial services or child care. If immigrants become concentrated in certain states or cities, natives might also respond by moving to locations with relatively less competition from immigrants. Although research findings suggest so-called *native flight* may have occurred in the 1980s, the experience of the 1990s suggests the opposite—that immigrants and natives were drawn together by economic growth.

The supply of capital might also change with immigration. An increase in the supply of labor means that each unit of capital becomes more productive and thus more valuable. As a result, capital may flow into areas where there has been immigration even while output in those areas shifts toward production of goods and services that are relatively more labor intensive. This increased investment and production shift may in turn raise the demand for labor and push wages partially back up.

Several economic studies have attempted to measure the wage impact of immigration on natives and previous immigrants—a challenging task because it is necessary to take into account all other factors that might plausibly affect wages, such as the responses by capital and labor outlined above. Such studies also have to take into account that immigration itself is driven by favorable economic conditions such as high or rising wages. With those caveats in mind, a typical finding is that, on average, immigration has little effect on native wages. Box 4-1 reviews one of these studies in more detail. Generally, estimates suggest that a 10 percent increase in the share of foreign-born workers reduces native wages by less than one percent. Recent studies that look at wage effects by skill levels typically find larger negative effects on less-skilled than medium- or high-skilled native workers. Adverse wage effects on previous immigrants have been found to be on the order of 2 to 4 percent. It should be noted that these studies typically identify the effect of immigration on natives by comparing labor market outcomes of natives in response to differences in immigration across regions and over time. Analysis done at the national level relies primarily on variation in immigration over time and finds larger adverse effects.

Box 4-1: Wage Impacts of Immigration

The labor market effects of immigration can be identified by using real-world events in which immigration occurs suddenly and is not driven by economic factors. One such study measures native wages in Miami before and after the Mariel Boatlift in which approximately 125,000 Cubans arrived between May and September of 1980. This influx added 45,000 workers, or 7 percent, to Miami's labor force in just a few months. Despite the fact that a relatively high fraction of the new immigrants were low-skilled, these immigrants had virtually no effect on the wages or unemployment rates of less-skilled workers in Miami.

This result could have been driven by labor and capital responses. For example, natives and other immigrants who would otherwise have moved to Miami to fill low-skill jobs may have decided not to do so because of the rapid influx of Cuban immigrants over this period. In addition, textile and apparel firms, industries that are well-suited to utilize low-skilled labor, expanded in Miami, thereby cushioning the adverse wage impact on Miami workers.

Fiscal Impact of Immigration

Immigrants—like all natives—affect the *public finances*, the revenues and expenditures of local, state, and Federal governments. Immigrants contribute money to public coffers by paying sales and property taxes (the latter are implicit in apartment rents). Immigrants working "on the books" further contribute through income and payroll taxes. Immigrants consume publicly provided goods and services such as roads, police and fire protection, and public schools. If they are eligible, some legal immigrants, such as naturalized citizens and lawful permanent residents who have lived in the United States for five years or more, may also receive assistance from programs such as food stamps, Temporary Assistance to Needy Families (TANF), and Medicaid. Supplemental Security Income (SSI) is generally restricted to citizens and to lawful permanent residents who have worked in the United States for at least 10 years. The fiscal impact of immigration is the difference between how much immigrants pay in to the government and the value of the public services they consume.

Some studies have calculated the fiscal impact of immigrants on an annual basis and looked at whether the cost of providing public goods and services to immigrant households increases the tax burden on native households in a given year. Such studies have found that, while immigrants do not impose a net higher tax burden at the Federal level, natives in states with a heavy concentration of immigrants from Latin America do realize an increased overall tax burden. Another approach in estimating the fiscal impact of immigration is to compute the expected lifetime fiscal impact of immigrants who come to stay permanently and their children, grandchildren, and future descendants. A 1997 study found that the net present value of immigrants' estimated future tax payments exceeded the cost of services they were expected to use by $80,000 for the average immigrant and his or her descendants. Accounting for the 1996 welfare reform, which restricted eligibility and imposed time limits, this figure increased to $88,000. The value of services slightly exceeded taxes paid by the original immigrant, but the contributions of the immigrant's descendants more than made up the difference.

The average impact masks two facts. First, immigrants typically do not impose a net cost at the Federal level where most of the proceeds from payroll taxes accrue, but rather at the state and local level through their use of public schools and health care. Second, the average fiscal impact also masks the fact that the fiscal effect of immigrants (like that of natives) varies by education level. How much immigrants pay in and how many services they utilize depend largely on whether they are families headed by skilled or unskilled workers. Immigrants with a high school degree or better and their descendants contribute more in taxes than they use in public services, which produces the overall positive impact mentioned above. But the average net present value of the fiscal impact of an immigrant with less than a high school education is negative $13,000. The impact of the original immigrant with no high school diploma is negative $89,000, which is largely offset by the positive $76,000 in contributions by the immigrant's descendants.

Fiscal contributions and receipts are also a function of an immigrant's legal status and the same net present value would not apply to an undocumented immigrant or someone residing in the United States temporarily. More than half of undocumented immigrants are believed to be working "on the books," so they contribute to the tax rolls but are ineligible for almost all Federal public assistance programs and most major joint Federal-state programs. Over time, however, if low-income immigrants attain legal status, they may become eligible for more welfare programs. The U.S.-born children of an immigrant, legal or illegal, are automatically citizens and eligible for government programs.

Immigrants and Public Assistance

Immigrant households, despite the restrictions on their eligibility, are more likely than native households to participate in public assistance programs. In 2003, 16.7 percent of native households used a major welfare program, compared with 25.5 percent of households with a foreign-born household head. Major welfare programs in this case include TANF, SSI, food stamps, public housing, and Medicaid. Immigrant families, which includes families with U.S.-born children, are more likely to use welfare as a result of their higher poverty rates and lower rates of health insurance coverage. Medicaid alone accounts for almost all the difference in the rates of public assistance for these two groups. This is partly due to the fact that immigrants are more likely to work in jobs without health insurance. Only 45 percent of immigrants have employment-based coverage, compared to 62 percent of natives.

Immigrants and Social Security

While the number of immigrants with relatively low education levels tends to put a strain on government budgets, several other immigrant characteristics have the opposite effect. First, compared to native workers, immigrants are relatively young when they arrive. Green card recipients are overrepresented in the age groups between 10 and 39. Immigrants also have higher fertility rates than natives. The influx of younger people and higher birth rates expand the labor force and slow the ongoing decline in the ratio of workers per retirees. This, in turn, contributes to the financing of pay-as-you-go entitlement programs, such as Social Security and Medicare.

Many of these workers who have contributed to the Social Security system return to their home countries and never file for benefits. In the case of Mexico, millions of Mexicans have worked in the United States and returned home, but only 37,000 non-U.S. citizens residing in Mexico received Social Security benefits in 2004. Undocumented immigrants without a valid Social Security number cannot receive Social Security benefits, but as long as the employer reports their earnings to the Social Security Administration (SSA), their earnings are subject to withholding of Social Security taxes. The SSA cannot identify undocumented workers, but keeps track of the earnings of all workers who have mismatched or invalid Social Security numbers in the so-called Earnings Suspense File (ESF). The ESF was valued at $463 billion in 2002.

Totalization agreements are another way that foreign workers can affect Social Security. Totalization agreements are binational treaties where U.S. workers' earnings abroad count toward their Social Security contributions and similarly for foreign workers employed in the United States. Totalization agreements exist with 20 countries.

Additional Benefits to Immigration

Calculations of the net benefits of immigration are typically made from the natives' point of view, hence the focus on fiscal and labor market impacts. But immigration also benefits the immigrant and his or her family, who enjoy increased income and improvements in their quality of life. Some of the increased income may be sent home in the form of remittances, benefiting family members who remain behind in the immigrant's country of origin. In addition, as migrants leave the country-of-origin, economic opportunities may arise for others who stay put. If there is enough emigration, as in the case of Mexico, the decrease in the supply of labor could even be enough to raise wages.

Migrant remittances can have important economic benefits in the origin country. In 2003, remittances from the United States to Latin America exceeded $30 billion. Remittances raise income, reduce poverty, and lower income volatility in the recipient country, an important consideration in countries where economic crises are more common. Studies of Mexican migrants have found that remittances are used for both day-to-day consumption, such as food and housing, as well as for investments in human and physical capital, such as starting a business, buying land, or building a home. The United States has led efforts to facilitate remittances. At the G-8 Sea Island summit in Georgia in June 2004, the President secured support for a plan to help developing countries by improving data on remittance flows and by reducing the costs of international money transfers.

In the long run, international migration can also lead to institutional change in the origin country. The fact that people are mobile means that countries facing high emigration may try to retain or lure their citizens back. For example, according to news reports, Mexico launched a crackdown on corrupt customs agents who preyed on migrants as they returned home. As part of the crackdown, Mexico appointed a border czar in 2001 and strengthened the Paisano Program, which helps Mexicans return home for the holidays without being harassed or extorted. The U.S. and Mexican governments also established Partnership for Prosperity, a large-scale binational public-private economic development initiative. Meanwhile, Federal and state government officials in Mexico launched programs such as *Dos por Uno* and *Tres por Uno* to match remittance money going to infrastructure projects, such as paving roads in migrant communities.

Immigration Policy

In a typical year, about two-thirds of new lawful permanent residents are admitted into the United States or adjust immigration status based on their family relationship with a U.S. citizen or permanent resident. (*Adjustment of status* refers to foreigners inside the United States who apply for green cards so they can stay here permanently.) While family-based immigration is prioritized in U.S. immigration policy, employment-based immigration has grown in importance in recent years largely through an increase in the number of skilled temporary workers. Nonetheless, existing employment-based programs suffer from many problems, including outdated processes for labor certification and inflexible numerical caps. Immigration systems are also strained by the need for security measures, such as more extensive background checks on applicants. At the same time, immigration continues to occur outside official channels in the form of undocumented immigration.

According to the most recent estimates, there are about 10 million undocumented immigrants in the United States, the majority of whom are low-wage workers. More than one-half of undocumented immigrants are from Mexico. One of the most pervasive features of undocumented immigration is that it is overwhelmingly driven by supply and demand: immigrants want to work in the United States, and many American employers want to hire them. Such a simple fact, however, has complex economic, humanitarian, and security-related implications.

Many undocumented immigrants endure a perilous journey to make it to the United States. To obtain work, some undocumented immigrants resort to using false documents, such as fake Social Security cards or green cards. They live in fear of deportation and may hesitate to contact law enforcement if they become victims of crime or abuse. Once workers are here, additional undocumented immigration may take place as family members and friends join the workers. As families grow, the children born in the United States to undocumented immigrants are U.S. citizens. Network-based migration and the natural rate of population increase have created hundreds of thousands of "mixed status" families, in which children, siblings, and parents have a different immigration status.

Current U.S. Immigration Policy

Throughout the nineteenth and into the early twentieth century, the United States had a generally "open door" policy toward immigration. Most newcomers were admitted with the exception of those barred by the Chinese Exclusion Act of 1882, prohibitions against prostitutes and felons, and a few other exclusions. World War I, however, ushered in an era of restricted immigration—a policy that has persisted to the present day. The National Origins Act of 1924 allowed immigration under country quotas that heavily favored northern Europeans. The Immigration Act of 1965, which provides the framework for current policy, abolished national-origins quotas and based immigration policy largely on "family reunification." While the Immigration Act of 1990 increased the cap on employment-based green cards, such green cards make up fewer than 15 percent of the total number of green cards issued in a typical year.

Current immigration law provides for five major bases for obtaining permanent residency in the United States—immediate relatives of citizens, other family members, employment immigrants, "diversity" immigrants, and refugees and persons granted political asylum. Immediate relatives include the parents, spouses, and minor children of citizens; other family members include siblings and adult children of citizens, as well as spouses and children of permanent residents; employment immigrants are workers brought in to work for U.S. employers; diversity immigrants come into the United States or adjust status through the "green card" lottery where priority is given to persons from certain underrepresented countries, such as many African nations; and refugees and persons granted asylum (also called *asylees*) qualify for permanent residence because they face persecution in their home countries. Refugees and asylees differ only in their location: refugees apply for admission to the United States from abroad, while asylees apply for asylum from within the United States.

All major permanent residence categories except immediate relatives of citizens are subject to numerical limits: approximately 226,000 for other family members, 140,000 employment immigrants, 55,000 diversity immigrants, and 10,000 asylees. Uncapped immediate relatives of citizens averaged 402,000 per year in 2000–2003. While there is no explicit limit on the number of green cards allotted for refugees, the number of refugees who can adjust status is limited by caps on refugee admissions that are set each year by the President in consultation with Congress. The cap on refugee admissions is 70,000 in fiscal year 2005.

Despite the overwhelming demand for permanent residence in all these categories, thousands of allotted green cards are not being issued. Processing backlogs are keeping green card issuances below their numerical caps and contributed to a 34 percent decline in the number of new lawful permanent residents in 2003. At the end of fiscal year 2003, there were 1.2 million adjustment of status cases pending a decision.

As a result of numerical limits and backlogs, green card applicants filing as "other family members" can expect to wait from 4 years (for unmarried adult children of citizens) to over 12 years (for siblings of citizens). Waits are longer for family-sponsored immigrants from certain overrepresented countries, such as India, Mexico, and the Philippines, because family-sponsored green card issuances to any single country cannot comprise more than 7 percent of the total. In February 2005, Filipinos who immigrated as siblings of U.S. citizens had waited 22 years for their green cards.

Employment-Based Immigration

Foreign workers come to the United States through employment-based green cards, as described above, or with temporary worker visas. For these purposes, there are at least 140,000 employment-based slots for permanent residency available each year (the actual cap varies with the number of green cards issued in the family program) and a variable number of temporary worker visas. Employment-based green cards typically require the worker to have at least a college degree or special skills; only 10,000 green cards are reserved for less-skilled workers. The allotment for employment-based green cards includes the principal worker and any family members. Nevertheless, for many years, the number of green cards issued fell far short of the 140,000 cap. During the height of the economic boom in the late 1990s, average annual employment-based green cards numbered only about 80,000, consisting of about 36,000 workers and 45,000 spouses and minor children.

The current situation is similar in that employment-based green card issuances are below their caps again, although this time not for a lack of demand. As of January 2005, there were 271,000 employment-based applications for adjustment of status pending, with about 191,000 of these backlogged by the Department of Homeland Security (DHS).

A multitude of factors contribute to difficulties within the employment-based green card program. Background checks and the sheer volume of pending applications limit processing speed, as do cumbersome requirements regarding the labor certification process. Labor certification for permanent employment requires a firm to undergo an extensive, government-supervised search for U.S. workers before the petition to hire a foreign-born worker can be approved. Once the Department of Labor (DOL) certifies that no qualified U.S. worker is available for the position and the wages and working conditions of existing workers will not be harmed by bringing in an additional foreign worker, then DHS and the Department of State can proceed with processing the green card application. In addition to the DHS backlogs mentioned above, there is a backlog of over 300,000 applications for labor certification at DOL. The labor certification process typically takes several years to complete and has been criticized as being time-consuming, costly, and complicated.

The problems with labor certification have resulted in calls for reforms and action by the Administration. In 2002, the Administration proposed to move to a streamlined application process under which the employer would recruit domestic workers *before* petitioning to hire a foreign worker. The final rule regarding the new labor certification system was published in the Federal Register on December 27, 2004. Under the new system, firms attest to appropriate recruitment procedures and DOL has the authority to audit all applications. DOL can order supervised recruitment for employers found to have abused the program. DOL expects that this simplification of the recruitment process and other changes, such as electronic filing and automated processing, will greatly reduce the time needed to process labor certification applications.

The waits and costs associated with traditional processing for employment-based permanent residency have likely prompted employers to make greater use of temporary worker visas. The number of visas issued to temporary workers has more than doubled in the last decade, rising from 251,000 in 1992 to 593,000 in 2003. In contrast, the number of employment-based green cards issued in 2003 was actually below the number issued in 1992, despite the tremendous growth in the labor force during this time. Temporary worker programs include the H-1B program for skilled workers, H-2A for agricultural workers, and H-2B for other less-skilled workers. Skilled temporary workers can also be admitted as intra-company transferees (L-1 visas) and, from Canada and Mexico, as North American Free Trade Agreement (or NAFTA) workers (TN visas).

There are many reasons for all parties—employer, employee, and the government—to prefer temporary worker visas. Temporary work visas are issued for a limited period of time and are typically restricted to one employer, so both employee and employer make a short-term commitment. The application process is simpler and thus generally less costly and timelier. In contrast to permanent residents, who can apply to be naturalized after five years' residence in the United States, temporary work visa holders are not eligible to apply for citizenship. They are also ineligible for most forms of public assistance. Temporary workers can apply for a green card, however, if they qualify and their employer agrees to support their application.

The unprecedented number of pending applications for employment-based green cards is believed to stem from the high number of temporary workers that came in under the H-1B program for skilled personnel in the late 1990s. In fiscal year 2004, the cap on H-1B workers in the private sector reverted from a temporary cap of 195,000 to the permanent cap of 65,000 workers per year. This quantity has proven insufficient to meet demand. In 2004, the government ran out of H-1B visas in February, seven months before the end of the fiscal year. In fiscal year 2005, the cap of 65,000 H-1Bs was reached in one day. In light of the shortage of H-1B visas, legislation was passed as part of the November 2004 Omnibus spending bill to provide an additional 20,000 H-1B visas per year to foreign students graduating from U.S. universities.

Undocumented Immigration

The influx of low-wage workers, many of whom come illegally, is partly a result of an immigration policy which, while having several employment-based immigration programs to address the need for skilled workers, has relatively few slots for low-skilled workers. The supply of green cards and temporary worker visas typically allows fewer than 100,000 low-skilled workers to come in each year. The sum is made up of 10,000 green cards and 66,000 H-2B visas for other low-skilled workers. In addition, about 14,000 agricultural workers were admitted with H-2A visas in 2003. In contrast, according to the Current Population Survey, the number of low-skilled foreign workers—workers who lack a high school degree—increased by about 225,000 per year between 1996 and 2003. Moreover, while H-2B visas for less-skilled workers have run out in both fiscal years 2004 and 2005, no increase or exemptions to the H-2B cap have been passed.

The demand for foreign labor is not new. When the railroads were being built in the nineteenth century, Mexican workers were recruited to expand the workforce in the Southwest and Chinese workers immigrated to work in the West. During World War II, labor shortages arose as U.S. men left their jobs to join the armed forces. In 1942, the U.S. and Mexican governments initiated the Bracero Program, which allowed Mexican workers to come in and fill seasonal jobs in agriculture. The need for workers did not end with the war, however, and the Bracero Program was kept in place until 1964, bringing in an average of about 200,000 workers per year. European countries, such as France and Germany, faced similar increases in labor demand following the war and instituted guest-worker programs around that time.

The end of the Bracero Program in 1964 and the imposition of quotas on legal immigration from the Western Hemisphere in 1977 eliminated many of the legal avenues by which to enter the United States from Latin America. The ensuing flow of undocumented immigration continues to this day. The Immigration Reform and Control Act (IRCA) of 1986 was an attempt to deal with this problem by providing for legalization of undocumented immigrants, increasing funding for the Border Patrol, and making it illegal to hire undocumented workers. To allow for additional worker inflows, IRCA also established the H-2A visa program for temporary agricultural workers. However, H-2A visas require employers to undergo a burdensome labor certification process and follow extensive rules and, as a result, the program is little used.

The passage of IRCA failed to stop illegal immigration. Undocumented immigration surged with U.S. growth in the early to mid-1990s. Contributing factors were likely the forces of network migration, which may have intensified following IRCA, and the 1994–1995 Mexican economic crisis. In response to the resurgence of undocumented immigrant inflows, border enforcement along the U.S.–Mexico border was dramatically increased starting in 1993.

The President's proposed Temporary Worker Program (TWP), announced on January 7, 2004, seeks to address the economic and security issues surrounding the flow of undocumented workers into the United States, as well as the associated humanitarian concerns. The TWP would give temporary visas to foreign workers who fill jobs for which employers can show they are unable to hire Americans. This would create an additional legal avenue to match workers, including low-skilled workers, with U.S. employers. The visas would last three years and, as long as the worker is employed, could be renewed at least once. The program would also offer incentives for workers to return home by setting up tax-preferred savings accounts where money could be withdrawn for use in the home country. The U.S. government would also work toward developing agreements with foreign nations to ensure TWP workers' U.S. earnings would be recognized by the public retirement programs in their respective countries.

The TWP would allow new foreign workers to come in each year in accordance with labor market demand. In addition, TWP eligibility would be extended to undocumented workers who were present and working in the United States on January 7, 2004, when the President made his announcement. The President also stated that there would continue to be increases in border security and, under TWP, tough penalties would be imposed on employers who continued to hire undocumented workers.

The President has proposed to more than double the funding dedicated to worksite investigations. In this multi-pronged approach, TWP has many advantages. It recognizes that an orderly and legal flow of workers will likely increase national security and brings employers and undocumented workers into compliance with the law. Employers will be able to legally hire the workers they need once they demonstrate that no willing and able American worker is available. Workers will be less likely to lie about their immigration status, rely on false documentation, or work under assumed names. Workers who abide by the rules of the program will not have to fear deportation. They will be able to return home for visits to their families and have their U.S. earnings count toward their future retirement benefits.

The challenges for a program such as this are twofold: to ensure that undocumented immigration does not continue—either in its current form or as temporary workers overstay—once the temporary worker program is implemented, and to minimize administrative burdens on employers who participate. If the goals of the program are achieved, there should be reduced demand for undocumented workers, leading to less illegal immigration.

Conclusion

Immigrant workers range from the seasonal agricultural laborer to the Nobel prize-winning scientist. They are the doctors and nurses who serve inner cities and rural areas, the professors who teach in our universities, and the taxi drivers and hotel workers that travelers rely upon. Immigrants also fill jobs that simply allow Americans to go to work every day, such as housekeeping and child care.

From an economic standpoint, one important lesson to take away from how the Nation has dealt with the unprecedented surge in immigration over the last decade is the role of U.S. labor market institutions. Flexible labor markets are important in generating job opportunities for workers, and immigrants are no exception. The work ethic of U.S. immigrants bolsters their economic contributions. Summing up the economic benefits and costs of immigration shows that over time, the benefits of immigration exceed the costs. Adjustment of the economy and native workers to immigration takes time, however, and the adjustment period can present challenges.

The lessons learned from recent decades can guide immigration reform and make laws more consistent with economic realities and American values. Under the President's proposed Temporary Worker Program, employers who show they cannot find an American worker to fill a job opening will be able to legally hire a foreign worker. This simple guiding principle, combined with better enforcement of immigration laws, has the potential to reduce undocumented immigration, bolster national security, and improve on the myriad employment-based immigration programs in effect.