

CHAPTER 1. REFRAMING THE IMMIGRATION DEBATE

In January 1979, China's Vice-Premier Deng Xiaoping made a much-celebrated state visit to Washington. At one of the meetings with President Jimmy Carter, both leaders brought along briefing books to guide their discussions. President Carter eventually got to the section that dealt with human rights and began his standard lecture, stressing that China had to learn to respect human rights. Among the specific human rights that concerned the President was the right of Chinese nationals to emigrate. Like most Communist countries, China made it extremely difficult for its citizens to leave—presumably because, as a matter of ideology, no workers would ever want to leave a so-called worker's paradise.

“Mr. Vice-Premier,” the President said, “the Jackson-Vanik amendment prohibits our granting most-favored-nation status to centrally-managed economies, unless they provide freedom of departure for their own nationals.” Deng Xiaoping turned to *his* briefing book, leaned back in his chair, smiled, and asked, “Well, Mr. President, how many Chinese nationals do you want? Ten million? Twenty million? Thirty million?”¹

Not surprisingly, that exchange marked the end of Jimmy Carter's brief campaign to grant Chinese citizens the right to leave their country.

Deng Xiaoping actually put his finger on one of the two crucial issues facing the United States in the current debate over immigration policy. Suppose that President Carter had replied that the United States was willing to admit ten million Chinese citizens over the next few years. The Vice-Premier could then have retorted: “Well, Mr. President, which ten million do you want? After all, we have a billion persons to choose from.”

And there, in a nutshell, is what the immigration debate is all about. *How many* people should the United States admit? And, since there are many more persons who will want to

migrate to the United States than the country is willing to admit, *which* of the visa applicants should the country accept?

The debate over immigration policy has raged throughout the entire span of American history. In 1753, twenty-three years before he signed the Declaration of Independence, Benjamin Franklin ruminated at length about the costs and benefits of German immigration.² On the one hand, he wrote, the German immigrants are “the most stupid of their own nation,” “few of their children in the country know English,” and “through their indiscretion, or ours, or both, great disorders may one day arise among us.” But Franklin also appreciated immigration’s benefits: German immigrants were “excellent husbandmen, and contribute greatly to the improvement of a country.” In the end, Franklin concluded that, under some conditions, the benefits could outweigh the costs: “All that seems necessary is, to distribute them more equally, mix them with the English, establish English schools where they are now too thick settled...”

American history is dotted with such cost-benefit calculations. In some periods, the calculation encourages the country to adopt an open-door immigration policy, as was the case until 1924. In other periods, the calculation tempts the country to close the door and admit few immigrants, as was the case from 1924 through 1965.

As the twenty-first century begins, the United States is about to embark once again upon a historic debate about the type of immigration policy that the country should pursue. As in the past, the cost-benefit calculus frames the terms of the debate: Who loses from immigration, and by how much? Who gains from immigration, and by how much?

Consider some of the issues at the core of today’s immigration debate. There is a great deal of worry, for example, that immigrants make extensive use of social services and do not “pay their way” in the welfare state. There is also anxiety that labor market competition with

immigrants has a harmful impact on the economic well being of some American workers. And there is the traditional concern over assimilation: Will today's immigrants find it harder to assimilate than earlier waves? Do the large ethnic enclaves that dominate major American cities impede assimilation? Will the presence of hard-to-assimilate immigrants further balkanize the country, leading to undesirable social, economic, and political consequences in the next century?

On the benefit side, it is sometime argued that immigration spurs economic growth, perhaps by contributing to the creation of new industries, such as in Silicon Valley. The large-scale migration of less-skilled workers may also reduce the prices that American consumers pay for many goods and services. In short, the size of the economic pie may be greatly increased by immigration, potentially making the entire population of the United States better off. Moreover, immigrants may do jobs that natives refuse to take, so that certain industries in the country—such as California's agriculture industry—would likely disappear if immigrant labor were not available. Finally, some participants in the debate argue that immigrants continually re-introduce ambition and drive into the American economy, helping propel the country forward.

These are all valid issues that should be part of the immigration debate. Unfortunately, they are also the *symptoms* of pursuing particular types of immigration policies. By arguing over the validity of these symptoms—do immigrants use a lot of welfare; are consumer prices lowered by immigration—the immigration debate is, in a sense, worrying about the height of the trees in the forest, rather than about the shape of the forest itself.

The concern over each of these symptoms of immigration—whether harmful or beneficial—can be traced to a single issue: *the American people care about who the immigrants are*. It matters if the immigrants might need social services or if they might instead contribute to the funding of the programs in the welfare state. It matters if the immigrants compete with

disadvantaged workers in the labor market and take their jobs away, or if the immigrants do jobs that natives do not particularly want and would go unfilled in the immigrants' absence. It matters if the immigrants “spark” the creative juices in particular industries, or if they simply replicate the talents of the native work force. And, finally, it matters if the immigrants will want to adapt to the social, economic, and political environment of the United States, or if they will fight to maintain their language and culture for several generations.

This book attempts to shift the terms of the immigration debate—away from arguing endlessly over the validity of the particular symptoms, and towards the fundamental questions: How many immigrants does the United States want? And which types of immigrants should the country admit?

By framing the debate in this fashion, I hope to clarify what is really at stake. And what is at stake is nothing less than the conception of what the United States is about. After all, it is futile to think about how many and which immigrants to admit unless one first has some objectives in mind. What is it that the American people want immigration to do for the country? Must immigration provide economic benefits to the native population? Which of the hundreds of millions of foreigners who now live under dire economic conditions or face political and religious persecution should be granted a chance to pursue the American dream? Does the United States want to use immigration as a political tool to further foreign policy goals? In short, what exactly does the United States want to accomplish through immigration?

Even if all Americans agreed on the same set of facts regarding the symptoms of immigration—such as the impact of immigrants on the labor market, on welfare expenditures, or on the gains that accrue to natives—they could still disagree on what to do about it. Some Americans, for instance, might put a lot of weight on what happens to their disposable income

when selecting among alternative social policies. These Americans might then perceive the large-scale immigration of less-skilled workers as a boon because it allows them to buy many goods and services—such as vegetables grown in California, a neater lawn, or a full-time nanny—at much lower prices. In contrast, other Americans might care deeply about the impact of immigration on income inequality in the United States, and would view the large-scale migration of less-skilled workers as an unmitigated disaster. This type of migration, after all, would probably have a very harmful impact on the wages of less-skilled native workers. Therefore, the same facts—that less-skilled immigration cuts consumer prices and lowers the wages of less-skilled workers—would have very different policy implications depending on what Americans wanted immigration to accomplish.

This book is an attempt to delineate the terms of the incipient immigration debate. In the first section of the book, the symptoms of immigration in the “short run” are evaluated. This section summarizes the evidence that is most in contention in the debate over immigration policy. What types of immigrants is the United States admitting? How do they do in the labor market? What factors determine the rate of assimilation? What happens to native jobs when immigrants enter the labor market? What is the impact of immigration on the balance sheet of the welfare state? And who benefits and loses from immigration?

The second section of the book evaluates a different set of symptoms—symptoms that have yet to enter the public consciousness, but that are probably much more important. What is the impact of immigration in the “long run,” as the children and grandchildren of today’s immigrants become tomorrow’s ethnic groups? Does the melting pot work? Do the differences in skills and economic performance between immigrants and natives, or among the ethnic groups

that make up the immigrant population, narrow across generations? How long will it take for the United States to digest the current wave of immigrants?

The final section of the book discusses the policy implications of the evidence. I ask two distinct questions: what should be the objective of immigration policy; and, given that objective, what should the country do about it? I stake out one particular objective: the maximization of the economic well being of the native-born population. In my view, this objective has dominated the immigration debate throughout American history. There can obviously be a lot of disagreement among reasonable persons over my choice of such an objective for immigration policy. Even if one disagrees with my choice, however, there is still much to learn by comparing how any proposed immigration policy deviates from the one that the United States would pursue if the country simply wanted to make natives better off.

The “Top Ten” Symptoms of Immigration

Participants in the debate over immigration policy typically use an array of statistics, many of them drawn from the latest research by economists and other social scientists, as weapons in this debate. Each side in the debate stresses particular symptoms or provides a particular interpretation of the evidence. I begin by listing the top ten symptoms (not necessarily in order of importance) that frame the immigration debate, and that will likely determine its direction.

1. The number of immigrants entering the United States is at record levels

Although the United States has admitted immigrants throughout its entire history, the number of immigrants admitted into the country has fluctuated greatly over time (see Figure 1-

1). Eras of large migration, for instance, were followed by decades of rest, during which time the immigrant waves were presumably assimilated and incorporated into the American mainstream.

Surprisingly, relatively few immigrants (only about 10 million) entered the country between 1820 and 1880. The huge flow that has come to be known as the Great Migration began around 1880 and continued until 1924, bringing with it about 26 million immigrants. Between 1901 and 1910, at the peak of this unprecedented migration, an average of 900 thousand immigrants arrived in the United States each year. The immigration restrictions imposed in 1924, as well as the Great Depression, reduced the immigrant flow to a trickle by the 1930s. Since then, the number of immigrants has increased steadily, with the increase accelerating in the 1970s and 1980s. By the late 1990s, nearly 1 million persons entered the country legally each year and another 300 thousand entered the country illegally.

There is no disagreement over the fact that the *absolute* number of immigrants entering the country at the end of the twentieth century is at record levels. The country, however, is much larger now than it was in the early 1900s. As a result, some participants in the immigration debate emphasize that the foreign-born share of the U.S. population is much lower now—presumably implying that immigration is not as serious a problem as others make it out to be. In 1910, for example, 15 percent of the population was foreign-born, as compared to “only” 10 percent in 1998. It is worth noting, however, that the foreign-born share of the population has doubled since 1970, when it was just below 5 percent.

Moreover, it is not clear that this particular “spin” of the data accurately describes the demographic impact of immigration. Much more relevant is the fact that immigration in the 1990s played a near-record role in determining population growth in the United States. Because of the increasing number of immigrants and the lower fertility rate of American women,

immigration in the 1990s, as in the early 1900s, accounted for at least a third of the change in population.³ Therefore, immigration in the 1990s had a historic impact, at least in terms of determining the changes that are occurring in American social and economic life. And this impact clearly justifies calling the large immigrant wave that began to enter the United States after 1965 the *Second* Great Migration.

2. The relative skills and economic performance of immigrants have declined

In 1960, the average immigrant man living in the United States actually earned about 4 percent more than the average native man. By 1998, the average immigrant earned about 23 percent less.

The worsening economic performance of immigrants is partly due to a decline in their relative skills across successive waves. The newest immigrants arriving in the country in 1960 were better educated than natives at the time of arrival; by 1998 the newest arrivals had almost two fewer years of schooling. As a result of this growing disadvantage in human capital, the relative wage of successive immigrant waves also fell. At the time of entry, the newest immigrants in 1960 earned 13 percent less than natives; by 1998, the newest immigrants earned 34 percent less.

In short, there has been a precipitous decline—*relative* to the trend in the native population—in the average skills of the immigrant flow reaching the United States. This historic change in the skill composition of the immigrant population helped rekindle the debate over immigration policy, and is the source of many of the symptoms of immigration that are stressed in this debate.

Although the direction of the overall trend in the relative skills of immigrants is clear, it would be a mistake to interpret the trend as saying that every immigrant who entered the country in the 1980s and 1990s is relatively less-skilled. The immigrant population is highly bifurcated: there are many immigrants with few skills and many immigrants who are highly skilled. In other words, immigrants tend to be lumped at both ends of the skill distribution. But the “bump” at the bottom end has become much more pronounced over time. By the late 1990s, almost 40 percent of the immigrants were in the bottom two deciles of the native wage distribution and only 14 percent were in the top two deciles.⁴ In other words, the relative decline in the average economic performance of immigrants is mainly due to a very large increase in the number of immigrants who place at the bottom of the skill distribution.

3. Immigrant earnings will continue to lag behind

The worsening economic performance of immigrants at the time of entry might not be a cause for concern if their economic disadvantage diminished over time, as immigrants assimilated and acquired skills valuable to American employers. However, the economic gap between immigrants and natives may not narrow substantially during the immigrants’ working lives.

The historical experience suggests that the process of economic assimilation—the acquisition of skills, such as English language proficiency, that American employers value—narrows the wage gap between immigrants and natives by about 10 percentage points in the first two decades after arrival. Immigrants who entered the United States after 1980 had a 25 percent wage disadvantage at the time of entry. If these recent arrivals experience the same rate of economic assimilation as earlier waves, the wage gap between recent immigrants and natives

will remain at about 15 percentage points throughout much of the immigrants' working lives. Put differently, the most recent immigrant waves will probably suffer a substantial economic disadvantage for decades to come.

4. National origin matters

The increase in immigration in recent decades can be attributed partly to changes in U.S. immigration policy. Prior to 1965, immigration was guided by the national-origins quota system, which granted visas mainly to persons originating in Western European countries, particularly Great Britain and Germany. The 1965 Amendments to the Immigration and Nationality Act (and subsequent revisions) repealed the national origin restrictions, increased the number of available visas, and made family ties to persons already living in the United States the key factor that determines whether a visa applicant is admitted into the country.

As a consequence of these shifts and of major changes in economic and political conditions in the source countries, there was a substantial change in the national origin mix of the immigrant flow (see Figure 1-2). Over two-thirds of the *legal* immigrants admitted during the 1950s originated in Europe or Canada, one-quarter in Latin America, and only 6 percent in Asia. By the 1990s, only 17 percent of the immigrants originated in Europe or Canada, almost half in Latin America, and 30 percent in Asia.⁵

These changes have generated a great deal of concern over the link between immigration and the ethnic and racial composition of the U.S. population.⁶ In 1970, the population was 5 percent Hispanic, 1 percent Asian, and 12 percent black. A recent projection concludes that by the year 2050 the population will be 26 percent Hispanic, 8 percent Asian, and 14 percent black.⁷

If nothing else, the Second Great Migration has altered the “look” of America in ways that were unimaginable in 1970.

There are also huge differences in economic performance among national origin groups. Immigrants from El Salvador or Mexico earn 40 percent less than natives, while immigrants from Australia or South Africa earn 30 to 40 percent more. To some extent, these differences in economic performance among national origin groups mirror the dispersion in skills across the populations of the source countries. Immigrants who originate in countries that have abundant human capital and higher levels of per-capita income tend to do better in the United States.

In view of the sizable skill differentials across ethnic groups, it is not surprising that the changes in the national origin mix of immigrants induced by the 1965 Amendments—away from the developed countries and towards less-developed countries—can explain the decline in the economic performance of successive immigrant waves. Put differently, there would not have been a decline in the relative skills and earnings of immigrants if the national origin mix of immigrants had remained the same in recent decades.

The strong link between national origin and economic performance raises an important—*and disturbing*—problem for immigration policy. Because national origin and immigrant skills are so closely related, any attempt to change one will inevitably change the other.

5. Immigration harmed the economic opportunities of the least skilled natives

Immigrants cluster geographically in a small number of cities and states. In 1998, almost three-quarters of the immigrants lived in only six states (California, New York, Texas, Florida, New Jersey, and Illinois). In contrast, only a third of the native-born lived in those states.

This geographic clustering suggests that one may be able to measure the impact of immigration on the labor market opportunities of native workers by comparing natives who reside in immigrant cities (such as San Diego) with natives who reside in cities where few immigrants live (like Pittsburgh). The available evidence indicates that these “spatial correlations” are extremely weak: if one city has 10 percent more immigrants than another, the native wage in the city with more immigrants is perhaps .2 percent lower. This finding has led many observers to conclude that immigration has little impact on native employment opportunities.

It turns out, however, that a weak spatial correlation does *not* necessarily indicate that immigrants have a numerically inconsequential impact on the well being of native workers. Suppose, for example, that immigration into California lowers the earnings of natives in California substantially. Native workers are not likely to stand idly by and watch their economic opportunities evaporate. Many will move out of California into other regions, and persons who were considering moving to California will now move somewhere else instead. These native population flows effectively diffuse the adverse impact of immigration on California’s labor market over the entire economy. In the end, *all* native workers are worse off from immigration, not simply those who happened to live in the areas where immigrants clustered.

There is evidence that the flows of native workers within the United States—as well as the flows of native firms looking for cheap labor—have indeed responded to immigration. Because of these responses, the labor market impact of immigration must be measured at the *national* level, rather than at the local level.

Between 1980 and 1995, immigration increased the number of high school dropouts by 21 percent and the number of persons with at least a high school diploma by only 4 percent.

During that time, the wage of high school dropouts relative to that of workers with more schooling fell by 11 percentage points. The disproportionate increase in the number of workers at the bottom end of the skill distribution probably caused a substantial decline in the relative wage of high school dropouts, accounting for perhaps half of the observed drop. In other words, immigration seems to have been an important contributor to the rise in income inequality in the United States, depressing the economic opportunities faced by the least skilled workers.

6. Immigration had a severe fiscal impact on the affected states

In 1970, immigrants were slightly less likely to receive public assistance than natives. By 1998, immigrants had a much higher chance of receiving welfare: almost a quarter of immigrant households were receiving *some* type of assistance, as compared to 15 percent of native households.

Two distinct factors account for the disproportionate increase in welfare use among immigrant households. Because more recent immigrant waves are relatively less skilled than earlier waves, it is not surprising that more recent immigrant waves are also more likely to use welfare than earlier waves. In addition, the welfare use of a specific immigrant wave *increases* over time (both in absolute numbers and relative to natives). It seems that the assimilation process involves not only learning about labor market opportunities, but also learning about the income opportunities provided by the welfare state.

There is little doubt, therefore, that immigrants are making increasing use of public assistance programs. This trend, as well as the expense of providing immigrants with a host of public services, particularly education, has added a new and potentially explosive question to the immigration debate: do immigrants “pay their way” in the welfare state? A comprehensive study

by the National Academy of Sciences concluded that immigration raised the annual taxes of the typical native household in California by about \$1,200 a year.⁸ The fiscal impact of immigration on the affected states, therefore, can be quite severe.

The welfare reform legislation enacted in 1996 gives states much greater leeway in setting benefit levels. States, in effect, are now freer to compete in the “market” for welfare recipients. It seems that immigrant-receiving states, such as California, have a huge incentive to race to the bottom as they attempt to reduce the fiscal burden imposed by the immigration of less-skilled workers.

7. The (measurable) net economic gains from immigration are small

To see how natives gain from immigration, first think about how the United States gains from foreign trade. When the United States imports toys made by low-wage Chinese labor, workers in the American toy industry suffer wage cuts and perhaps even lose their jobs. These losses, however, are more than offset by the benefits accruing to consumers, who can now buy toys at lower prices.

Consider now the analogous argument for immigration. Immigrants increase the number of workers in the economy. Because of the additional competition in the labor market, the wage of native workers falls. At the same time, however, native-owned firms gain because they can now hire workers at lower wages; and many native consumers gain because the lower labor costs lead to cheaper goods and services. As with foreign trade, the gains accruing to the persons who use or consume immigrant services exceed the losses suffered by native workers, and hence society as a whole is better off.

Although some participants in the immigration debate claim that these gains from immigration are large, the facts are quite different: all of the available estimates suggest that the annual net gain is astoundingly small, less than .1 percent of GDP. In the late 1990s, this amounted to a net gain of less than \$10 billion a year for the entire native population, or less than \$30 per person.

Immigration, however, does more than just increase the total income accruing to natives. Immigration also induces a substantial redistribution of wealth, away from workers who compete with immigrants and towards employers and other users of immigrant services. Workers lose because immigrants drag wages down. Employers gain because immigrants drag wages down. These wealth transfers may be in the tens of billions of dollars per year.

These facts suggest a new prism for looking at the immigration debate. Immigration can be viewed as an income redistribution program, a large wealth transfer from those who compete with immigrant workers to those who use immigrant services or buy the goods produced by immigrant workers. The debate over immigration policy, therefore, is not a debate over whether immigration increases the size of the economic pie in the United States. Rather, the immigration debate is essentially a debate over how the pie is split.

Immigration may also benefit or harm the United States through what are called “externalities.” After all, immigration expands the size of the market. It can introduce many new interactions among workers and firms, and expose Americans to a variety of new products, such as the rich ethnic cuisine that dominates major American cities. These potential benefits, however, are tempered by increased congestion or by a higher potential for ethnic conflict. Most of these externalities, moreover, are hard to measure, and the calculation of their benefit or harm will often depend on the eyes of the beholder.

8. Ethnic skill differentials may persist for at least three generations

In 1998, 11 percent of the U.S. population was “second-generation”—born in the United States but with at least one foreign-born parent. By the year 2050, the share of second-generation persons will increase to 14 percent, and an additional 9 percent will be composed of the grandchildren of current immigrants. The economic impact of immigration obviously depends not only on how immigrants adapt, but also on the adjustment process experienced by their offspring.

The historical experience of the children and grandchildren of the First Great Migration provides important lessons about the long-run consequences of immigration. That migration introduced substantial ethnic skill differentials into the United States: 97 percent of Irish immigrants knew how to read and write any language, as compared to 80 percent of Greek immigrants, and 45 percent of Mexican immigrants.

These differences helped determine the skills and economic performance of the children and grandchildren of the First Great Migration. A 20-percentage point difference in literacy rates among two immigrant groups in 1910, for instance, implied a one-year difference in educational attainment in the second generation, and a half-year difference in educational attainment in the third. Similarly, a 20 percent wage differential between two immigrant groups in 1910 implied a 12 percent wage differential in the second generation, and a 5 percent wage differential in the third. In rough terms, about half of the average skill differential between any two groups in the first generation persists into the second, and half of the differential remaining in the second generation persists into the third.

The historical lesson is clear: the skill differentials found among today's immigrants become the skill differentials found among tomorrow's ethnic groups. If past history is any guide, national origin will still determine the economic performance of the grandchildren of the Second Great Migration at the end of the twenty-first century. In short, ethnicity matters in economic life, and it matters for a very long time.

9. Ethnic spillovers influence the social mobility of immigrant groups

The characteristics of the ethnic environment, which I will call “ethnic capital,” influence the skills and economic performance of the children in the ethnic group, above and beyond the influence of the parents. These characteristics include the culture, attitudes, and economic opportunities that permeate the ethnic networks.

Exposure to an advantaged ethnic environment—in the sense that the environment has abundant human capital—has a positive influence on the children in the group, while exposure to a disadvantage environment has a negative influence. Ethnic capital creates a type of stickiness in the process of social mobility, making it difficult for persons in disadvantaged ethnic groups to move up and for persons in the advantaged ethnic groups to move down. In other words, the skill differences across ethnic groups will tend to persist across generations because continued exposure to a particular set of socioeconomic traits and outcomes “spills over” and influences one’s life.

The available evidence indeed suggests that the skills of the children of immigrants are affected not only by the skills of their parents, but also by measures of the group’s ethnic capital, such as the mean education or wage of the ethnic group in the parental generation. In fact, the impact of ethnic capital on social mobility may account for half of the persistence in ethnic skill

differentials across generations. Because the children of particular ethnic groups tend to follow in the *group's* footsteps, ethnic capital effectively lowers the flame under the melting pot from a “full boil” to a “slow simmer.” In a sense, ethnic capital makes it hard to escape the economic fate implied by one’s ethnic background.

10. Ethnic ghettos incubate ethnic differences and slow down the melting pot

There is a growing realization that the segregation of young African-Americans into poor neighborhoods helped create the black underclass by depriving these young men and women of particular types of role models, and of the social and economic contacts that provide valuable information about many types of economic opportunities.⁹ The segregation of blacks into poor neighborhoods helps feed a vicious cycle that makes it all the more difficult to escape the ghetto.

There is also a great deal of residential segregation among ethnic groups in the United States. Persons of Mexican ancestry live near other persons of Mexican ancestry; persons of Italian ancestry live near other persons of Italian ancestry; and so on. Because few of the persons in disadvantaged ethnic groups can afford to escape the ethnic ghetto, these enclaves make it easy for ethnic capital to influence the social mobility of the persons who reside in those ghettos, and help to perpetuate the socioeconomic differences observed across ethnic groups from generation to generation.

Ethnic ghettos are an important feature of many American cities at the end of the twentieth century. The immigrants in the Second Great Migration live, work, and raise their children in these ghettos. These neighborhoods provide the social and economic networks that will influence the lives of the children and grandchildren of these immigrants far into the next century. The stage has already been set for a new chapter in the history of ethnic America.

Implications for Immigration Policy

So what should the United States do? It is important to get one piece of common sense out of the way quickly: the “top ten” symptoms of immigration listed above—*by themselves*—have no policy implications whatsoever. In other words, there are no policy implications inherent in the facts that immigrants use a lot of welfare or reduce the earnings of less-skilled workers, or that ethnic enclaves hamper the assimilation process.

This approach to the immigration debate goes against the grain of most discussions of social policy reform. Typically, those who argue over the parameters of a particular social policy take sides by grasping onto a specific fact, and from that fact they immediately infer some policy reform that the country should pursue. In my view, this way of thinking about the evolution of social policy is just plain wrong.

To see why, single out a particular symptom of immigration over which there is little disagreement: immigrant use of welfare is high. The policy implication of this fact depends crucially on what the United States is trying to accomplish. If the goal of immigration policy were to ensure that immigration did not place a fiscal burden on the native population, this symptom would surely imply that the United States should take steps to restrict the entry of potential welfare recipients. If, in contrast, the goal of immigration policy were to help the poorest persons in the world, this symptom has no policy relevance—it is the price that the country is willing to pay to achieve a particular humanitarian objective. And the country would want to accept even more immigrants who could become potential welfare recipients.

In the end, a debate over the policy implications of what is known about the economic impact of immigration cannot be based on the evidence alone. *Any policy discussion requires*

explicitly stated assumptions about what constitutes the national interest. It is the combination of the evidence with an assumption about what Americans desire that permits an informed debate over the type of immigration policy that the United States should pursue. In an important sense, the top ten symptoms of immigration resemble Pirandello's characters in search of an author. These symptoms are looking for a policy to recommend, but cannot find one unless the American people first ask *and answer* the bigger question: What should immigration policy accomplish?

Of course, answering this question is very difficult, even when the debate is restricted purely to the economic issues that tend to frame the immigration debate. To see why, divide the world into three distinct constituencies: the current population of the United States (or "natives"); the immigrants themselves; and those who remain in the source countries.¹⁰ To draw policy conclusions from the symptoms of immigration, one has to know whose economic welfare the United States should try to improve when setting policy—that of natives, immigrants, the rest of the world, or some mix thereof. The policy implications implied by the symptoms depend crucially on whose interests the United States cares most about.

By framing the issue in this fashion, the tradeoffs implicit in immigration policy are made crystal clear. The native population probably benefits a great deal when the United States admits high-quality scientific manpower, but the people left behind in the source countries probably lose a lot. Similarly, immigrants benefit when immigration policy favors the entry of their relatives, but natives may lose because this policy does not screen the new entrants and might let in many persons who qualify for social services.

It is probably impossible to come up with an immigration policy where all the relevant parties benefit.¹¹ As a result, the United States will have to make difficult choices.

In my view, any serious discussion of immigration policy must begin with the choice of a weighting scheme that values the costs and benefits that accrue to each of the three groups—the natives, the immigrants, and the rest of the world. And any assignment of weights among these groups inevitably raises a number of moral issues. Is it just to favor some persons over others? Is it fair to deny some persons the opportunity to join in the American dream? Is it right to make some natives pay for the benefits that immigration imparts on other natives?

I will address these issues in due course, but for now let's suppose that somehow the country has decided that the main objective of immigration policy should be to benefit the economic well being of the native population. That decision resolves the issue of how to weigh the costs and benefits accruing to the three groups. But there is still another question to answer: What exactly is it about natives that the country cares about? Does the country want to pursue an immigration policy that maximizes the per-capita income of natives, without regard to how the economic pie is split? Or does the country want to pursue an immigration policy that does not increase the social and economic inequities that already exists in the United States?

Each of these decisions leads to a different interpretation of the symptoms of immigration. And, as a result, each permutation of what the American people determine to be the “national interest” generates a different recommendation for the type of immigration policy that the country should pursue.

Suppose, for the sake of argument, that the goal of immigration policy is indeed to maximize the economic well being of the native population. And suppose that native economic well being depends both on per-capita income and on the distribution of income in the native population. In effect, the United States wants immigration to make the country wealthier, but it does not want immigration to greatly increase the amount of inequality in the society.

How many and which types of immigrants should the country then admit? The evidence presented in this book, I conclude, can be used to make a strong case that the United States would be better off by adopting an immigration policy that favored skilled workers. And a plausible argument can also be made that the country would be better off with a slight reduction in the number of immigrants.

It is useful to view immigration policy as a formula that gives “points” to visa applicants on the basis of various characteristics, and then sets a passing grade. The variables in the formula determine *which* types of persons will be admitted, while the setting of the passing grade determines *how many* persons will be let in. In 1965, the United States began to use an admissions formula that, to a large extent, had only one variable, indicating if the visa applicant had a family member already residing in the United States. The immigrant flow would be much more skilled if the United States, like other immigrant-receiving countries, expanded the admissions formula to include not only family connections, but such other factors as education, age, and English proficiency.

And how many immigrants should the country admit? In theory, the United States should admit an immigrant as long as the contribution made by the immigrant exceeds the costs imposed by the immigrant. Unfortunately, it is difficult to come up with the “magic number” unless one becomes much more specific about how to balance the facts that immigration increases the size of the economic pie *and* changes how the pie is split. Those who care about economic efficiency will typically want to see more immigrants: the greater the number of immigrants, the greater the gains to employers (through lower wages) and consumers (through lower prices). Those who care about distributional issues will typically want to see fewer

immigrants: the greater the number of immigrants, the greater the dislocation in labor markets, and the greater the losses suffered by those who compete with immigrant workers.

In a typical year of the 1980s and 1990s, the United States admitted about 730 thousand legal immigrants, at least 200 thousand illegal aliens, and over 100 thousand refugees. In other words, the immigrant flow (net of refugees) consisted of around 1 million immigrants per year. This flow was disproportionately composed of less skilled workers, and had a disproportionately severe impact on economic opportunities at the bottom end of the skill distribution. I suspect that an annual flow of 1 million immigrants is probably too large—regardless of whether the losers are at the bottom or at the top of the skill distribution. Such a large flow can substantially depress the economic opportunities of workers who compete with immigrant labor. A good place to start the process of converging to the “magic number” might be to let in 500 thousand immigrants per year—which happens to roughly correspond with the recommendation made by the Commission for Immigration Reform in 1997.

The United States is about to embark on a historic debate, a debate that will determine who can partake in the American dream during the twenty-first century. Because the immigration debate has historically focused on economic issues, this book will inevitably emphasize the economic impact of immigration. Let me admit at the outset, however, that economic factors—*by themselves*—should not decide the outcome of this debate. But they will play an important role. Economics, after all, helps frame answerable questions about immigration: Who benefits? Who loses?

In the end, the objective of immigration policy will reflect a political consensus that inevitably incorporates the conflicting social and economic interests of various demographic, socioeconomic, and ethnic groups, as well as political and humanitarian concerns. Perhaps after

debating these issues, the American people will place the economic concerns aside, and choose an immigration policy that stresses the humanitarian or political consequences of immigration.

Such a resolution of the debate does not diminish the value of entering a discussion that informs the country about the economic consequences of immigration. A wise decision requires that the American people be fully aware of the price they will have to pay if the United States chooses to adopt an immigration policy that minimizes or ignores economic considerations.

ENDNOTES TO CHAPTER 1

¹ This anecdote has long made the rounds among participants in the immigration debate. Former Secretary of State Cyrus Vance has confirmed the details (letter to author, June 3, 1998). The incident has also been publicly mentioned by Zbigniew Brzezinski, President Carter's advisor on national affairs; see "Fifty Years After Yalta: Europe's and the Balkan's New Chance," speech by Zbigniew Brzezinski before the Free and Democratic Bulgaria Foundation (Sofia Sheraton Hotel, April 1, 1995). The Jackson-Vanik amendment linked the granting of equal-tariff privileges to Communist countries to their emigration policies. The amendment was enacted in 1974, and was co-sponsored by Representatives Henry Jackson and Charles Vanik.

² Letter of Benjamin Franklin to Peter Collinson, May 1753. This letter is excerpted in Edith Abbott, ed., *Historical Aspects of the Immigration Problem* (New York: Arno Press and the New York Times, 1969), pp. 415-416.

³ U.S. Bureau of the Census, *Statistical Abstract of the United States, 1997* (Washington, D.C., 1997), p. 9.

⁴ By definition, 10 percent of the natives are in each decile of the native wage distribution.

⁵ The trend would be even more striking if the calculation included the illegal alien population because illegal immigration is disproportionately of Mexican origin. At the same time, however, the large number of illegal aliens who were granted amnesty in the early 1990s distorts the trend. The Immigration and Naturalization Service defines their year of entry as the year when the application for permanent residence was approved, rather than as the year when they first actually entered the United States.

⁶ Peter Brimelow, *Alien Nation: Common Sense About America's Immigration Disaster* (New York: Random House, 1995).

⁷ James P. Smith and Barry Edmonston, eds., *The New Americans: Economic, Demographic, and Fiscal Effects of Immigration* (Washington, D.C.: National Academy Press, 1997), p. 121. This prediction depends crucially on the assumption that the descendants of Asians or Hispanics will themselves be Asians or Hispanics. The validity of this assumption is questionable, particularly since there is already some intermarriage across the groups—and it is unclear how the children of these mixed marriages should be classified or will classify themselves.

⁸ The National Academy study also estimated the long-run fiscal impact by “tracking” an immigrant household over a *three-hundred* year period following the immigrant’s entry. This dynamic exercise revealed that admitting one immigrant today yields an \$80,000 fiscal surplus at the *national* level. The long-run net benefit from immigration, however, arises mainly because the numerical exercise assumed that the federal government will put its fiscal house in order in the year 2016, and pass a huge tax increase to ensure that the debt-GDP ratio remains constant after that point.

⁹ William Julius Wilson, *The Truly Disadvantaged: The Inner City, the Underclass, and Public Policy* (Chicago: University of Chicago Press, 1987); and Douglas S. Massey and Nancy A. Denton, *American Apartheid: Segregation and the Making of the Underclass* (Cambridge, MA: Harvard University Press, 1993).

¹⁰ Note that, in this context, the group of “natives” is defined to include all persons living in the country regardless of where they were born. This is the group that will enter whatever

cost-benefit calculation the country chooses to make when it determines immigration policy in the future.

¹¹ The “probably” arises because economic theory suggests that an open-border policy would maximize the world gross domestic product. In principle, one could then take this bigger economic pie and redistribute it so that every person in the world would be slightly better off. In practice, however, political considerations probably make it impossible to design and implement this type of redistribution scheme.