

# Background

No. 1913  
March 1, 2006



Published by The Heritage Foundation

## The Real Problem with Immigration ...and the Real Solution

*Tim Kane, Ph.D., and Kirk A. Johnson, Ph.D.*

America's exceptional status as a "nation of immigrants" is being challenged by globalization, which is making both migration and terrorism much easier. The biggest challenge for policymakers is distinguishing illusory immigration problems from real problems. One thing is quite clear: The favored approach of recent years—a policy of benign neglect—is no longer tenable. Members of both the Senate and the House of Representatives recognize this and deserve credit for striving to craft a comprehensive law during this session of Congress.

In 2005, immigration policy received far more genuine attention on Capitol Hill, and Members of Congress from both sides of the aisle are now considering what to do about immigration policy. Their various efforts have focused on a wide variety of changes in current policy, including improving border security, strengthening employer verification of employment, establishing a new temporary guest worker program, and offering some level of amnesty to illegal immigrants currently living in the United States. At present, these proposals are working their way through the legislative process.

However, to achieve results, immigration reform must be comprehensive. A lopsided, ideological approach that focuses exclusively on border security while ignoring migrant workers (or vice versa) is bound to fail. If Congress passes another law that glosses over the fundamental contradictions in the status quo, then the status quo will not change. Thinking through the incentives is the key to success.

### Talking Points

- The real problem presented by illegal immigration is security, not economics. When three out of every 100 people in America are undocumented, there is a profound security problem.
- Efforts to curtail the influx of migrants actually worsen the security dilemma by driving many migrant workers underground, thereby encouraging the culture of illegality. A non-citizen guest worker program is an essential component of immigration reform, and anything less is bound to fail.
- The evidence indicates that worker migration is a net plus economically. It is folly to blame immigrants for hurting the economy at a time when unemployment is low, wages are high, and the economy is simply not hurting.
- Throughout history, great nations decline by building walls of insularity. It would be a tragedy if America were to turn toward a false sense of security just when China is ascending with openness, Western Europe is declining into isolation, and the real solution is so obvious from our own American heritage.

This paper, in its entirety, can be found at:  
[www.heritage.org/research/labor/bg1913.cfm](http://www.heritage.org/research/labor/bg1913.cfm)

Produced by the Center for Data Analysis

Published by The Heritage Foundation  
214 Massachusetts Avenue, NE  
Washington, DC 20002-4999  
(202) 546-4400 • [heritage.org](http://heritage.org)

Nothing written here is to be construed as necessarily reflecting the views of The Heritage Foundation or as an attempt to aid or hinder the passage of any bill before Congress.

## The Real Problem

Illegal immigration into the United States is massive in scale. More than 10 million undocumented aliens currently reside in the U.S., and that population is growing by 700,000 per year.<sup>1</sup> On one hand, the presence of so many aliens is a powerful testament to the attractiveness of America. On the other hand, it is a sign of how dangerously open our borders are.

Typical illegal aliens come to America primarily for better jobs and in the process add value to the U.S. economy. However, they also take away value by weakening the legal and national security environment. When three out of every 100 people in America are undocumented (or, rather, documented with forged and faked papers), there is a profound security problem. Even though they pose no direct security threat, the presence of millions of undocumented migrants distorts the law, distracts resources, and effectively creates a cover for terrorists and criminals.

In other words, the real problem presented by illegal immigration is security, not the supposed threat to the economy. Indeed, efforts to curtail the economic influx of migrants actually worsen the security dilemma by driving many migrant workers underground, thereby encouraging the culture of illegality. A non-citizen guest worker program is an essential component of securing the border, but only if it is the right program.

It is important to craft a guest worker program intelligently. While there are numerous issues involved in such a program, many of which are beyond the scope of this paper, the evidence indicates that worker migration is a net plus economically. With this in mind, there are 14 principles—with an eye toward the economic incentives involved—that should be included as part of a guest worker program.

## Immigration Benefits and Costs

An honest assessment acknowledges that illegal immigrants bring real benefits to the supply side of the American economy, which is why the business community is opposed to a simple crack-down. There are economic costs as well, given America's generous social insurance institutions. The cost of securing the border would logically exist regardless of the number of immigrants.

The argument that immigrants harm the American economy should be dismissed out of hand. The population today includes a far higher percentage (12 percent) of foreign-born Americans than in recent decades, yet the economy is strong, with higher total gross domestic product (GDP), higher GDP per person, higher productivity per worker, and more Americans working than ever before. Immigration may not have caused this economic boom, but it is folly to blame immigrants for hurting the economy at a time when the economy is simply not hurting. As Stephen Moore pointed out in a recent article in *The Wall Street Journal*:

The increase in the immigration flow has corresponded with steady and substantial reductions in unemployment from 7.3 percent to 5.1 percent over the past two decades. And the unemployment rates have fallen by 6 percentage points for blacks and 3.5 percentage points for Latinos.<sup>2</sup>

Whether low-skilled or high-skilled, immigrants boost national output, enhance specialization, and provide a net economic benefit. The 2005 *Economic Report of the President* (ERP) devotes an entire chapter to immigration and reports that "A comprehensive accounting of the benefits and costs of immigration shows the benefits of immigration exceed the costs."<sup>3</sup> The following are among the ERP's other related findings:

1. Congressional Budget Office, "The Role of Immigrants in the U.S. Labor Market" November 2005, at [www.cbo.gov/ftpdocs/68xx/doc6853/11-10-Immigration.pdf](http://www.cbo.gov/ftpdocs/68xx/doc6853/11-10-Immigration.pdf) and Jeffrey S. Passel, "Unauthorized Migrants: Numbers and Characteristics" Task Force on Immigration and America's Future, Pew Hispanic Center, June 14, 2005 at [pewhispanic.org/files/reports/46.pdf](http://pewhispanic.org/files/reports/46.pdf).
2. Stephen Moore, "More Immigrants, More Jobs," *The Wall Street Journal*, July 13, 2005, p. A13.
3. Council of Economic Advisers, *Economic Report of the President* (Washington, D.C.: U.S. Government Printing Office, 2005), pp. 93–116.

- Immigrant unemployment rates are lower than the national average in the U.S.;
- Studies show that a 10 percent share increase of immigrant labor results in roughly a 1 percent reduction in native wages—a very minor effect;
- Most immigrant families have a positive net fiscal impact on the U.S., adding \$88,000 more in tax revenues than they consume in services; and
- Social Security payroll taxes paid by improperly identified (undocumented) workers have led to a \$463 billion funding surplus.

The macroeconomic argument in favor of immigration is especially compelling for highly educated individuals with backgrounds in science, engineering, and information technology. The increasing worry about outsourcing jobs to other nations is just one more reason to attract more jobs to America by insourcing labor. If workers are allowed to work inside the U.S., they immediately add to the economy and pay taxes, which does not happen when a job is outsourced. Therefore, capping the number of H-1B visas limits America's power as a brain "magnet" attracting highly skilled workers, thereby weakening U.S. firms' competitiveness.

Congress increased the number of H-1B visas by 20,000 in November 2004 after the annual cap was exhausted on the first day of fiscal year (FY) 2005.<sup>4</sup> On August 12, 2005, the U.S. Citizenship and Immigration Service announced that it had already received enough H-1B applications for FY 2006 (which began October 1, 2005) and would not be accepting any more applications for the general selection lottery.<sup>5</sup> These and other numbers show that more workers from abroad, not fewer, are needed.

Still, critics of this type of insourcing worry that jobs are being taken away from native-born Americans in favor of low-wage foreigners. Recent data suggest that these fears are overblown. While the nation's unemployment rate generally has remained just above 5 percent over the past year, unemployment in information technology now stands at a four-year low of 3.7 percent.<sup>6</sup>

While the presence of low-skill migrant workers can be construed as a challenge to low-skill native workers, the economic effects are the same as the effects of free trade—a net positive and a leading cause of economic growth. A National Bureau of Economic Research study by David Card found that "Overall, evidence that immigrants have harmed the opportunities of less educated natives is scant."<sup>7</sup> The consensus of the vast majority of economists is that the broad economic gains from openness to trade and immigration far outweigh the isolated cases of economic loss. In the long run, as has been documented in recent years, the gains are even higher.<sup>8</sup>

A simple example is instructive in terms of both trade and immigration. An imaginary small town has 10 citizens: some farmers, some ranchers, a fisherman, a tailor, a barber, a cook, and a merchant. A new family headed by a young farmer moves to town. His presence is resented by the other farmers, but he also consumes from the other business in town—getting haircuts, eating beef and fish, having his shirts sewn and pressed, and buying supplies at the store, not to mention paying taxes. He undoubtedly boosts the supply side of the economy, but he also boosts the demand side. If he were run out of town for "stealing jobs," his demand for everyone's work would leave with him.

4. These additional visas are available only to individuals who have master's degrees or higher from a U.S. university.
5. Press release, "USCIS Reaches H-1B Visa Cap," U.S. Department of Homeland Security, U.S. Citizenship and Immigration Service, August 12, 2005, at [uscis.gov/graphics/publicaffairs/newsrels/H-1Bcap\\_12Aug05.pdf](http://uscis.gov/graphics/publicaffairs/newsrels/H-1Bcap_12Aug05.pdf) (December 27, 2005).
6. Eric Chabrow, "IT Employment on Upswing," *Information Week*, April 4, 2005, at [www.informationweek.com/story/showArticle.jhtml?articleID=160403526](http://www.informationweek.com/story/showArticle.jhtml?articleID=160403526) (December 27, 2005).
7. David Card, "Is the New Immigration Really So Bad?" National Bureau of Economic Research *Working Paper* No. 11547, August 2005.
8. See IDG News Service, "Study: Offshore Outsourcing Helps U.S. Economy," March 30, 2004, at [www.itworld.com/Career/1826/040330outsourcing](http://www.itworld.com/Career/1826/040330outsourcing) (December 27, 2005).

The real problem with undocumented immigrant workers is that flouting the law has become the norm, which makes the job of terrorists and drug traffickers infinitely easier. The economic costs of terrorism can be very high and very real, quite apart from the otherwise positive economic impact of immigration. In order to separate the good from the bad, there is no substitute for a nationwide system that identifies all foreign persons present within the U.S. It is not sufficient to identify visitors upon entry and exit; rather, all foreign visitors must be quickly documented.

### Economic Principles for an Effective Guest Worker Program

To this end, 14 economic principles should be borne in mind in crafting an effective guest worker program:

1. **All guest workers in the U.S. should be identified biometrically.** Technologically, a nationwide system of biometric identification (fingerprints, retina scans, etc.) for visitors has already been developed for the US-VISIT program. A sister “WORKER-VISIT” program is essential for enforcement efforts and would help American companies to authenticate guest workers efficiently. There is at present no effective system of internal enforcement, but the Department of Homeland Security (DHS) has in place a “basic pilot employment verification program”<sup>9</sup> that demonstrates the potential effectiveness of using such technology with guest workers to discourage undocumented work arrangements. Employers who want to hire guest workers should be required to verify electronically that the particular worker has registered with WORKER-VISIT and is eligible to work in the United States.
2. **Existing migrant workers should have incentives to register with the guest worker program.** A guest worker program that is less attractive to migrant workers than the status quo
3. **U.S. companies need incentives to make the program work.** Immigration reform will be successful if—and probably only if—American companies support its passage and enforcement. A new law must therefore avoid both onerous red tape (e.g., requiring an exhaustive search of native workers before a job can be offered to migrants) and any provision that would make it easier to hire guest workers than it is to hire natives (e.g., waiving payroll taxes on guest workers that must be paid on native worker payrolls). Perhaps the most important incentive is a negative one: The new law should include funding for a system of internal enforcement to police and prosecute companies that break the law.
4. **Guest worker status should not be a path to citizenship and should not include rights to U.S. social benefits.** If the incentive to work in the U.S. is artificially enhanced with a promise of potential citizenship, foreign migrants will be oversupplied. Citizenship carries with it tremendous benefits (e.g., social spending and entitlement programs) that should be provided only to American citizens. For example, unemployment insurance benefits should never go to foreign visitors. Providing benefits such as unemployment insurance, welfare, Head Start, and other payments to visiting workers will significantly

9. Associated Press, “Firms Test Web Immigration Check,” September 5, 2005, at [www.wired.com/news/privacy/0,1848,68761,00.html](http://www.wired.com/news/privacy/0,1848,68761,00.html) (November 3, 2005). See also U.S. Department of Homeland Security, U.S. Citizenship and Immigration Service, “SAVE Program: Employment Verification Pilot Programs,” at [uscis.gov/graphics/services/SAVE.htm#two](http://uscis.gov/graphics/services/SAVE.htm#two) (December 27, 2005).



distort the incentives to migrate to the U.S. The legal status equivalent of guest workers is that of tourists—people who reside in America temporarily and are bound by U.S. law but do not have any claim on citizenship or its benefits.

5. **Efficient legal entry for guest workers is a necessary condition for compliance.** Existing illegal migrants should be required to leave the U.S. and then allowed a system of entry through border checkpoints with strict conditions for identification, documentation, and compliance with U.S. law. If the guest worker program instead involves prolonged waits for reentry or a lottery for work visas, existing migrant workers will have little incentive to comply with the law. Moreover, such reforms will be perceived as attempts to shrink the supply of migrant labor and will be resisted. However, a program of efficient *legal* entry for migrants who comply with biometric identification will not deter compliance and will encourage migrants to utilize the formal channels of entry rather than jumping the border.
6. **Efficient legal entry should be contingent upon a brief waiting period** to allow law enforcement agencies the time needed to screen incoming workers. A waiting period of at least a few days will give law enforcement agencies time to screen incoming visitors' biometrics against criminal and terrorist databases.
7. **Provisions for efficient legal entry will not be amnesty**, nor will they "open the floodgates." Such a system will actually encourage many migrants to exit, knowing that they will be able to return under reasonable regulations. This is in stark contrast to the status quo, in which the difficulty and uncertainty of reentering the U.S. effectively discourage aliens from leaving. Documented migrant workers would enter a new status: not citizen, not illegal, but rather temporary workers.

As for opening the floodgates, the reality is that they are already open. More to the point, labor markets operate effectively to balance supply and demand, and those markets are currently in balance. Creating a new category of legal

migrants would not change that equilibrium, provide unfair benefits to undocumented aliens over others, or be tied to citizenship, but it would enhance security.

8. **Government agencies should not micromanage migrant labor.** Any federal attempt to license migrants by occupation—micromanaging the market for migrant labor—would be a dangerous precedent and would likely fail. Socialized planning of any market is inferior to the free market, and its implementation is dangerous on many levels. First, allowing government management of the migrant labor market would be terrible precedent for later intrusion into all U.S. labor markets. Second, it would be open to abuse, vulnerable to corruption, and inefficient even if run by angels.

For example, in the case of a worker certified as an avocado picker who has carpentry skills that his employer would like to utilize and promote, why should the worker and his employer have to petition a Labor Department bureaucrat just to revise the worker's *skill* certification? Equally implausible is a program that requires migrants and businesses to know one another prior to entry and file the relevant paperwork. Labor markets do not work this way. Such schemes would quickly prove ineffective and lead right back the status quo. Real labor markets work informally, and the power of the market should be utilized to make the guest worker program function efficiently.

9. **The guest worker program should not be used as an excuse to create another large federal bureaucracy.** The inherent risk of authorizing a new guest worker program is that it will establish a new, unwieldy federal bureaucracy that outgrows its budget and mandate. Critics contend that the federal government is ill-equipped to handle the substantial influx of people who would enter the U.S. through a guest worker program. They further cite the long backlogs that plague other immigration programs, most notably the green card program.

One way to alleviate this problem is to involve the private sector in the guest worker visa pro-

cess, much as gun retailers are integrated into the criminal background checks of gun buyers. Many parts of the guest worker visa process could be facilitated by contracting out certain parts of the process, including paperwork processing, interviewing of visa candidates (if necessary), coordinating with the DHS and federal law enforcement agencies on background checks, facilitating placement with prospective employers, and facilitating the exit upon expiration of the visa. As long as the private contractor has no conflict of interest in the visa selection or placement process, such a system should be better than another federal bureaucracy.

10. **Bonds should be used to promote compliance after entry.** There are many smart ways that bonds could be used to manage the immigrant pool. In one system, guest workers would pay upon entry for a bond that is redeemable upon exit. An individual who wanted to recoup the money would comply with the overall guest worker system and other U.S. laws, effectively acting as part of a self-enforcing network that discourages non-bonded, undocumented migrants. An alternative arrangement would have U.S. companies paying for the bonds as a right to hire some number of workers. If Congress felt compelled to cap the number of guest workers, the bonds could be treated like property rights and bid on to establish the market value of a guest worker. In both cases, the dollar value of the bond would be repaid after the migrant exited the U.S. but would be forfeit if the migrant went into the black market economy.
11. **Guest workers should be required to find a sponsoring employer** within one month (or some other reasonable period of time). The employer would verify via WORKER-VISIT that the particular worker is eligible to be employed in the United States. If the migrant cannot locate an employer within the time frame, the law should require that he or she leave the country. A sponsorship system is an
- efficient alternative to government management of the supply of and demand for migrant labor. It would be self-checking because employers could be required to submit payroll records regularly for automated review, which would identify the guest workers at each location. If employment with a sponsor ended, the worker would be allowed a similar reasonable period of time to find a new employer. Existing undocumented workers should find it relatively easy to get sponsorship with current employers, so the act of leaving the country and reentering would neither discourage their compliance nor come at the expense of legal migrants.
12. **Day laborers should be required to find long-term sponsoring employers.** The presence of tens of thousands of day laborers in the U.S.<sup>10</sup> may seem to pose a challenge to immigration reform, but the day labor market should not be given an exemption. A functioning WORKER-VISIT program would likely motivate the creation of intermediary firms that employ day laborers and connect them with customers in a more formal market that develops along the lines of subcontracting firms that are already active in gardening, house-cleaning, janitorial services, accounting, and night security. Intermediary firms could offer day laborers in teams of variable sizes, allowing the hiring firms to avoid the hassles of sponsoring and documentation paperwork. Skeptics might protest that most subcontracted jobs are routine (even regularly scheduled), whereas day labor is by nature last-minute and unpredictable. However, that is not really true in the aggregate, especially when compared with other last-minute industries like plumbing/flood control or emergency towing. Competitive firms can meet demand with very little slack as long as free-market incentives are in place.
13. **Migrants and employers who do not comply with the new law should be punished.** Migrants who decline to register and are subsequently apprehended inside the U.S. should be

10. Abel Valenzuela, Jr., "Working on the Margins: Immigrant Day Labor Characteristics and Prospects for Employment," University of California at San Diego, Center for Comparative Immigration Studies *Working Paper* No. 22, May 2000.

punished with more than deportation. Deportation is not a disincentive. The Cornyn–Kyl bill (S. 1438) contains a good proposal along these lines: a 10-year ban on guest worker participation for migrants who do not comply with the new program.<sup>11</sup> Congress should also consider a lifetime prohibition on violators’ applying for and receiving U.S. citizenship. The law should introduce steep penalties as well, including prison time and seizure of assets of undocumented workers and their employers. There is no justification for working outside the system, especially a system that allows free entry. The law would establish a date certain after which all migrants in the U.S. must be registered or face these penalties. The lifetime ban on the opportunity to acquire U.S. citizenship would be a strong incentive for undocumented immigrants to enter the process of documentation. Likewise, firm, consistent, *enforced* penalties against employers would create the proper incentives for compliance.

14. **All migrants should respect American law and traditions.** The requirement to obey all laws is not optional for new citizens and should

not be optional for visitors. While we encourage and insist on the primacy of American values for those who join our workforce, we should also remember the full spectrum of values ourselves. The Statue of Liberty reminds us that we are all equal, regardless of ethnicity, origin, or even state of wretchedness, and that America will continue to be a land of opportunity.

## Conclusion

The century of globalization will see America either descend into timid isolation or affirm its openness. Throughout history, great nations have declined because they built up walls of insularity, but America has been the exception for over a century. It would be a tragedy if America were to turn toward a false sense of security just when China is ascending with openness, Western Europe is declining into isolation, and the real solution is so obvious from our own American heritage.

—*Tim Kane, Ph.D., is Bradley Fellow in Labor Policy and Kirk A. Johnson, Ph.D., is a Senior Policy Analyst in the Center for Data Analysis at The Heritage Foundation.*

---

11. The Cornyn–Kyl bill is a good start, but it also has a number of flaws that could be fixed. See James Jay Carafano, Ph.D., Janice L. Kephart, and Alane Kochems, “The Cornyn–Kyl Immigration Reform Act: Flawed But Fixable,” Heritage Foundation Executive Memorandum No. 982, September 23, 2005, at [www.heritage.org/Research/HomelandDefense/em982.cfm](http://www.heritage.org/Research/HomelandDefense/em982.cfm).