

Rethinking US Immigration Policy
Why an Open Border Would Lead to an Economic Boon

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ABSTRACT

In this paper, I argue that the current immigration policy of the United States federal government is not only hurting the economy, but that if we opened the borders entirely, we could see an economic boon unlike any seen since the early 20th century, at a time when we welcomed millions to our shores, most of whom built the American economy we know today. This paper argues that a policy shift is in order, and that unless we do something drastic, we might be stuck in a permanent state of recession, and the old hope for a 4% increase in the economy will be a thing of the past. The solution to the fledgling economy could very well be found in an open border policy, one that is fair to new Americans and old alike, one that secures our safety and liberty, all while heralding in a new economic boon that hasn't been since in nearly a hundred years.

CHAPTER 1

INTRODUCTION

It is often said that the borders of the United States need to be protected from outside forces, that we can't allow an influx of immigrants in, that jobs are a scarce commodity, and that we must protect them in every conceivable way we can. Many argue that the border should be completely shut to outsiders, arguing that by allowing others in, we are reducing the wealth of Americans here at home, stealing jobs away as if the number of jobs is never

changing, a limited resource that almost never expands. There are others that say we should completely open the border, that national boundaries are manmade, and that people weren't meant to be fenced in or kept out. As it turns out, wealth isn't a finite resource; it can be created. Jobs aren't a scarce commodity that can never grow in number; it could easily be argued when we invite others in, they will open businesses of their own, or they will simply add to the efficient production of already existing businesses, improving output, raising wages in the process, and creating more wealth across the board. In a time when the debate over immigration has become so heated, there seem to be too many myths that need to be dispelled. There are ways to open the border, allowing for new Americans, many of whom, if history is an accurate guide to the future, open more businesses than native born citizens, work longer, more productive hours than natives, and take part in the economy in unique ways, creating wealth on a level that most Americans could only dream of. There is a case for opening the border, and it's one that rests on the very notion of wealth creation many argue is at stake if we do just that.

CHAPTER 2

LITERATURE REVIEW

In discussing immigration and the border, and especially the economic impact of further opening the border to allow more immigrants into this country, there are many myths that stubbornly stick around. Many of these myths are based on ignorance of basic economic principles, and some of them are, in fact, rooted in fear. That fear can be justified in many cases, as we all tend to be afraid of new things, especially those things that challenge the old

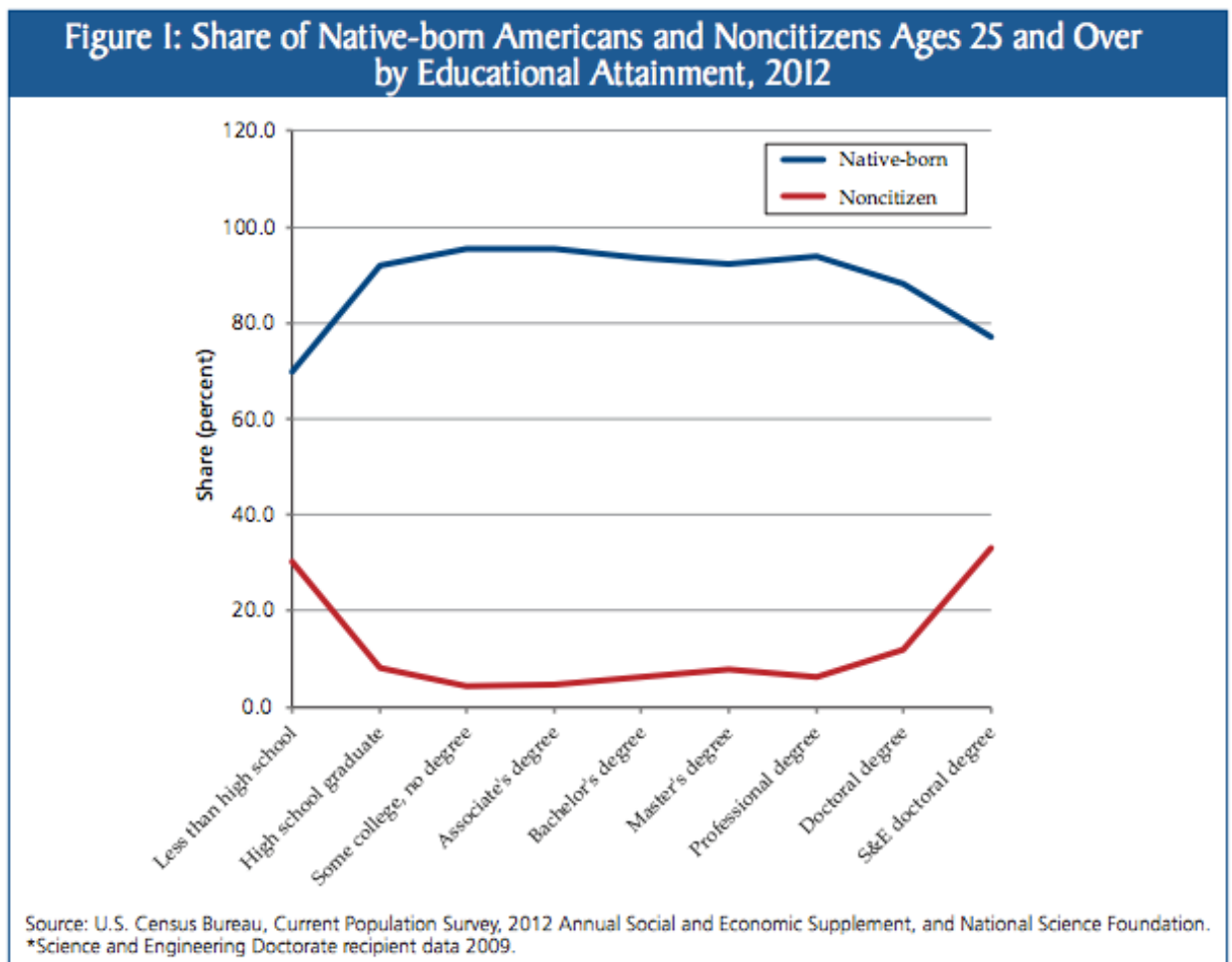
regime. It is in the realm of immigration where we can find solid, timely refutations of the myths, dispelling them with various data, hoping to come to a better economic consensus. The issue isn't going away anytime soon, and the sooner we tackle it with facts, the better off we are in the long run.

The biggest argument lodged against supporters of a more open border is that economically, there are only so many jobs, and immigrants will take jobs from native born Americans if we open the border to a flood of people. That is simply not true, even from a basic economic standpoint. There is no justified stance that jobs in the economy are a finite resource, to be allocated to a certain number of people until they're dried up. Professor Benjamin Powell, director of the Free Market Institute (2010), argues that immigrants open new markets for goods and services, and that frees up native born Americans to do jobs that they have a comparative advantage in. In fact, his studies show that immigrant labor is often either in the higher end or lower end of the labor market, so many of the jobs that immigrants take are ones that many Americans don't find advantageous based on working conditions and pay rates or higher end jobs where there is often a shortage of American talent to fill the positions. Powell, looking to figures from other economists specialized in this field, shows that the net economic benefit to native born Americans is close to \$36 billion a year.

On the issue of labor skills, immigrants tend to have skills that complement those of US workers. Whereas immigrants, on average, tend to be less educated on the lower end, the bell-shaped curve of their labor skills tends to swoop upward on the other end. As can be seen in figure 1, immigrants' educational attainment tends to curve in the very opposite direction of those levels of education by US citizens. There's little doubt that immigrants, especially those

from countries with weaker economies will have lower reservation wages than the average American worker, and that's not an insult to the average American, but rather a sign that citizens of a first world economy expect more from employment than some others might. We can use this complementary nature of the educational levels to boost both the lower and upper ends.

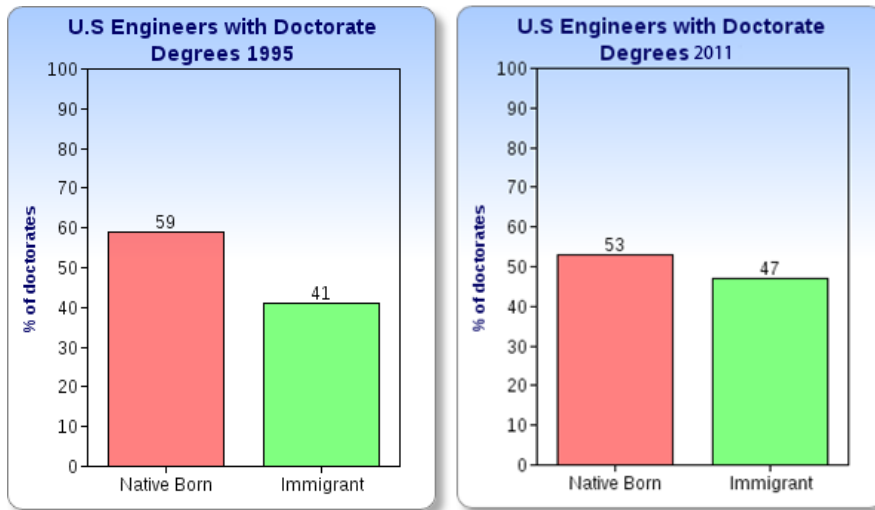
FIGURE 1:



As figure 2 shows, the number of engineers who receive doctorates in the US has been less lopsided in the past 15 years. Immigrants make up nearly 50% of those who receive doctorates in engineering, giving credence to the comments by Apple founder, Steve Jobs, that

the US needs more engineers, and that if we had more, Apple could bring more of its production to the US instead of sending it overseas to China.

FIGURE 2:



Source: National Science Foundation February 11, 1999 data and March 13, 2012

<http://www.nsf.gov/statistics/issuebrf/sib99327.htm>

Other arguments against immigration abound, one of them being the idea that wages of native born workers are depressed when you see a flood of immigrants into the labor force. That is, according to Powell (2010), not the case when you look at the actual data. The data of several large-scale studies suggests that there is not a single supply of labor, but rather many different labor supplies comprised of workers with various levels of skills, many immigrants are on the two extreme ends of the spectrum. The new immigrants also add to the demand, creating new markets there, which causes an increase in both the supply and demand of labor, ultimately making all labor more productive by taking advantage of specialization throughout the economy.

Powell (2010) notes that, when all is said and done, the market should dictate how many immigrants come in. The natural flow of immigrants will eventually rise and fall based on price levels here in the United States. If prices for goods, services, and homes become too high, immigrants will stop flowing into the country until such a time when prices lower. The market can dictate the flow with an open borders policy, no government intervention needed. The catastrophe that some argue will take place can be averted with free markets conditions signaling to hopeful immigrants that conditions here aren't suitable at the moment, and that things might change in the near future.

George J. Borjas (1994) studied the issue of immigrant effects on the US economy and concluded a smaller benefit to the American people, somewhere between \$6 billion and \$20 billion, but he sees the cost as being slightly higher. Borjas doesn't argue for open borders, but rather the immigrants we do let in need to be higher skilled. Borjas is, in fact, cited by many offering a stricter view on immigration, but his numbers tend to show a minimal impact on an influx of new labor into the country. Borjas is right to worry about the fact that many new immigrants from countries wishing to enter the United States tend to be lower skilled than the average American worker, but this could work in an open borders framework. We can insist that immigrants who come here both legally and illegally be given a chance to become full citizens, and in the process we can improve their skills, especially those related to their place in the labor market.

In their study on the fiscal impact of immigrants into the US, economists Alan J. Auerbach and Philip Oreopoulos (1999) show that there is little fiscal impact on the economy based on the number of immigrants allowed into the country. The main cause for concern is the

composition of immigrants who come into the country, especially in terms of how much education they have attained and what job skills they have. It is better, it seems, to invite more higher skilled immigrants into the country, and if in the country already, broaden their economic future, thus boosting the fortunes of native-born Americans, by urging them into attaining training and the skills that result from such programs. The problem here is that even in this regard the federal government can't seem to get things right, as the US runs a green card lottery, wherein random people are picked from a pool of applicants to become citizens of the country, no matter what their skill set is. Sankar Mukhopadhyay and David Oxborrow (2012) argue that increasing the number of highly skilled immigrants who become permanent citizens would see an increase of \$11, 860 per year in income. The key policy initiative should be to earmark a certain percentage of new immigrants allowed in who have some sort of post-secondary education, thus reducing any possible economic burdens on native born Americans. Surely, an "open border" policy would need to put some sort of cap on immigrants if we suddenly saw a major economic impact due to the influx of new Americans.

In fact, history has given the US a great example of an influx of a large number of immigrants from an economically depressed country, and we have seen the effects on a local economy. In 1980, 125,000 Cubans came to Miami in the Mariel Boatlift. Economist David Card studied the results from the influx of immigrants, and concluded that there was no negative impact on the unemployment rate in Miami in 1980 or the following 10 year period. His data shows that immigrants, in general, tend not to have much lower skills than the native population, and that immigrants who come into the US tend to migrate to cities where the labor demand can handle their numbers. In figure 3, you can see the effects on the

unemployment rate amongst various groups in Miami. There is no significant impact on the unemployment rate, and the data suggests the same in comparable-sized cities.

FIGURE 3:

Logarithms of Real Hourly Earnings of Workers Age 16–61 in Miami and Four Comparison Cities, 1979–85.

<i>Group</i>	<i>1979</i>	<i>1980</i>	<i>1981</i>	<i>1982</i>	<i>1983</i>	<i>1984</i>	<i>1985</i>
<i>Miami:</i>							
Whites	1.85 (.03)	1.83 (.03)	1.85 (.03)	1.82 (.03)	1.82 (.03)	1.82 (.03)	1.82 (.05)
Blacks	1.59 (.03)	1.55 (.02)	1.61 (.03)	1.48 (.03)	1.48 (.03)	1.57 (.03)	1.60 (.04)
Cubans	1.58 (.02)	1.54 (.02)	1.51 (.02)	1.49 (.02)	1.49 (.02)	1.53 (.03)	1.49 (.04)
Hispanics	1.52 (.04)	1.54 (.04)	1.54 (.05)	1.53 (.05)	1.48 (.04)	1.59 (.04)	1.54 (.06)
<i>Comparison Cities:</i>							
Whites	1.93 (.01)	1.90 (.01)	1.91 (.01)	1.91 (.01)	1.90 (.01)	1.91 (.01)	1.92 (.01)
Blacks	1.74 (.01)	1.70 (.02)	1.72 (.02)	1.71 (.01)	1.69 (.02)	1.67 (.02)	1.65 (.03)
Hispanics	1.65 (.01)	1.63 (.01)	1.61 (.01)	1.61 (.01)	1.58 (.01)	1.60 (.01)	1.58 (.02)

Note: Entries represent means of log hourly earnings (deflated by the Consumer Price Index—1980 = 100) for workers age 16–61 in Miami and four comparison cities: Atlanta, Houston, Los Angeles, and Tampa–St. Petersburg. See note to Table 1 for definitions of groups.

Source: Based on samples of employed workers in the outgoing rotation groups of the Current Population Survey in 1979–85. Due to a change in SMSA coding procedures in 1985, the 1985 sample is based on individuals in outgoing rotation groups for January–June of 1985 only.

Source: “The Impact of the Mariel Boatlift on the Miami Labor Market” (Card, 1990)

The data on the issue of immigrant studies is fairly clear, and it’s obvious that many of the myths that surround this debate are easily debunked. Some studies show no economic impact from immigrants coming into the United States, while others show a clear benefit to not only the immigrant population but to native born Americans as well. Why not err on the side of caution and allow for a more open border, expect the economic benefit, but if we see the opposite start to happen, we can then change our policies and close the border to new immigrants in the way we do now. We literally have nothing to lose if we open the border in an

intelligent manner, monitor those who come in, disallow certain people with ties to radical causes in other countries from entering, while doing our best to ensure the best and brightest come to our borders and can gain entry. The net benefit to the entire nation is such that we can create a whole new level of prosperity unseen in this country since the first part of the last century.

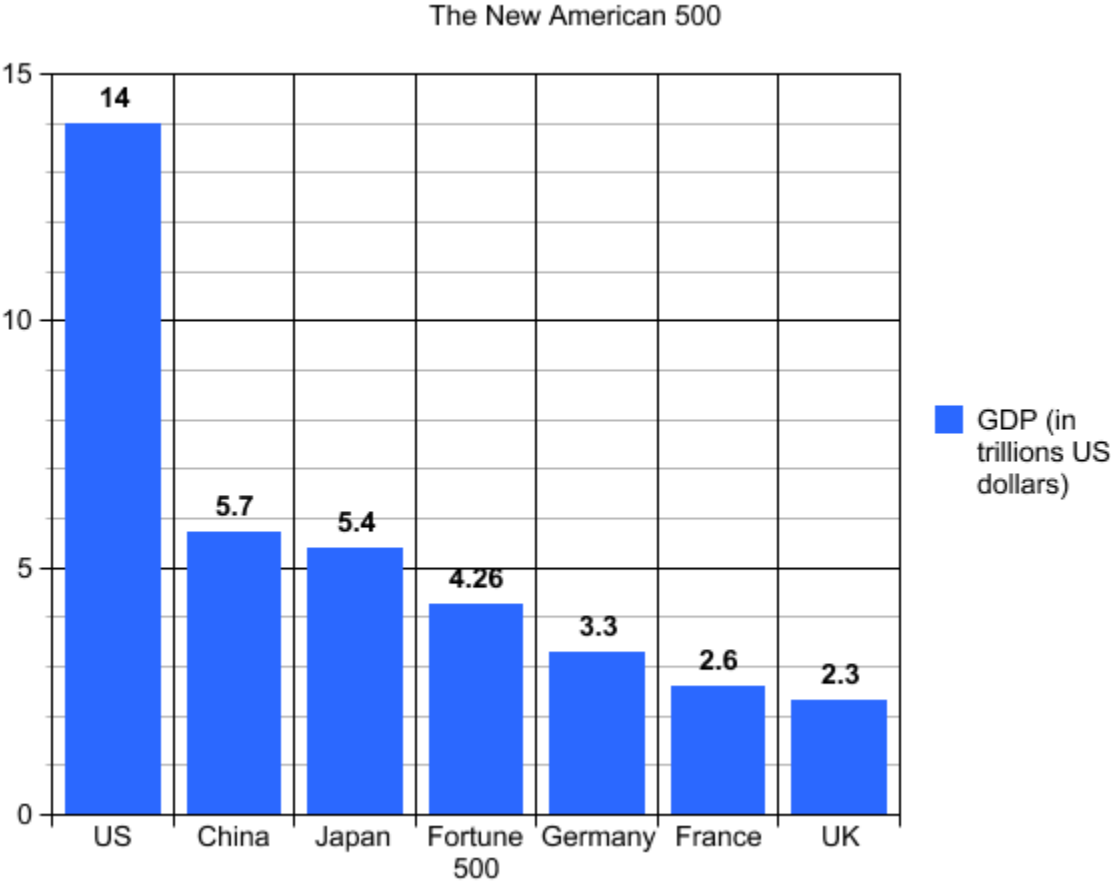
CHAPTER 3

FORTUNE 500 COMPANIES FOUNDED BY IMMIGRANTS

One could argue the evidence anecdotal, because not all companies are built the same, and perhaps a list of companies founded by a certain group of people proves nothing, but one sees a pattern when looking at American businesses founded by immigrants and the children of immigrants. An organization called Partnership for a New American Economy, whose co-chairs include NYC Mayor Michael Bloomberg, Microsoft CEO Steve Ballmer, the mayors of San Antonio, Los Angeles, Philadelphia, and Phoenix, as well as the CEO's of News Corporation and Walt Disney Company, put out a report in 2011 that details what they call the "New Fortune 500" companies. These are companies that were started by immigrants or the children of immigrants. A full 40% of the companies in the 500 meet this standard, and some of these giants include Kraft Foods, Google, AT&T, Mattel, Heinz, Home Depot, UPS, and Boeing. All these companies were started by immigrants or the children of immigrants, 40% of the 500 companies, even though immigrants make up only around 10.5%, on average, of the US population since 1850. These companies employ over 10 million people worldwide, have revenues in excess of \$4.2 trillion, and it's estimated that immigrant-founded companies, in

general, add around \$776 billion to the country's GDP each year, while employing more than 4.7 million Americans (Kallick 2012). In fact, if the companies in the 500 mentioned here made up their own country, it would be the 4th largest in terms of GDP in the world, just behind the US, China, and Japan (The "New American" Fortune 500 2011). The point of these numbers is that immigrants add value, and they do so in real terms like GDP.

FIGURE 4:



Source: Partnership for a New American Economy

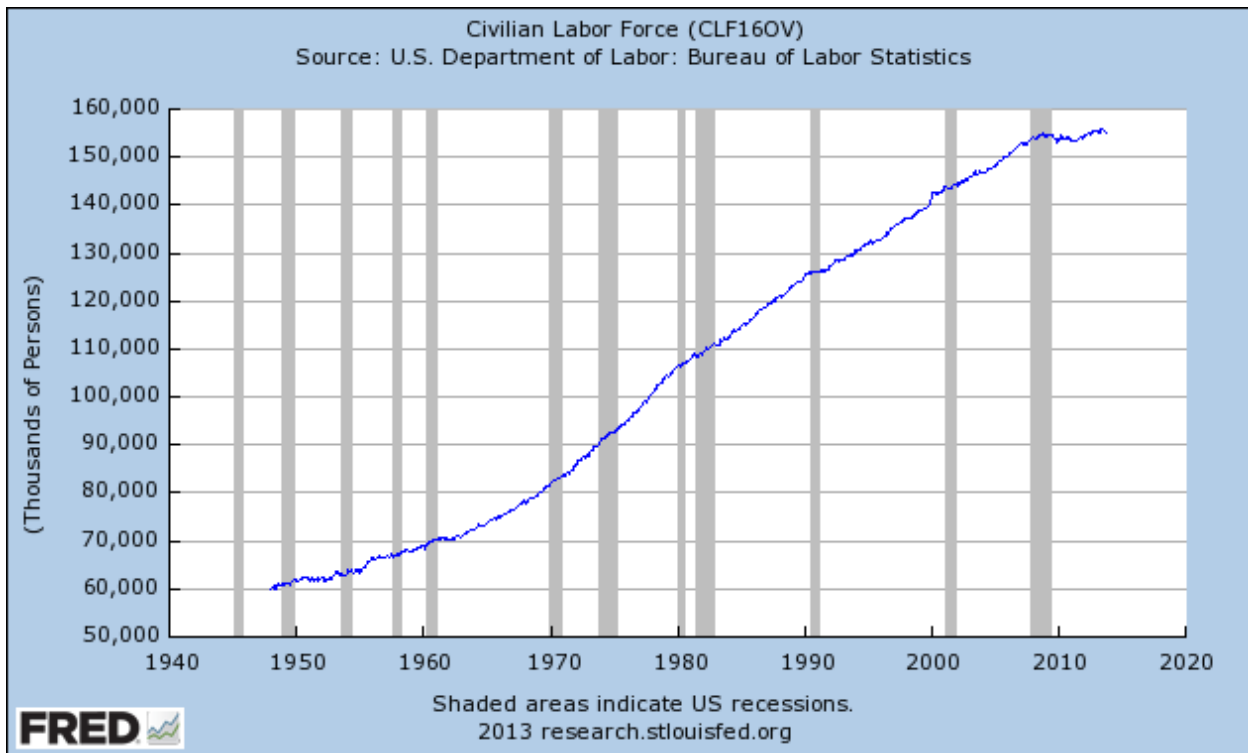
CHAPTER 4

IMMIGRANT SMALL BUSINESS

These numbers aren't trivial. Major US corporations were founded by immigrants or children of immigrants, and that's proof that immigrants add to the economy in a significant way. With higher levels of education, more immigrants who come to the US could be the next new business owner, and because labor isn't a finite resource, new companies will mean new jobs for more Americans. As Powell argues, despite the argument that more people mean fewer jobs, because immigrants tend to be more likely than native born Americans to start business ventures, the demand for labor grows with the new supply (other new immigrants). He notes:

If immigrants really did take jobs...the same should be true any time we add more workers to the economy. Is it? Since 1950, there has been massive entry of women, baby boomers, and immigrants into the work force...The civilian labor force grew from around 60 million workers in 1950 to more than 150 million workers today. Yet there has been no long-term increase in the unemployment rate (*Powell n.d.*).

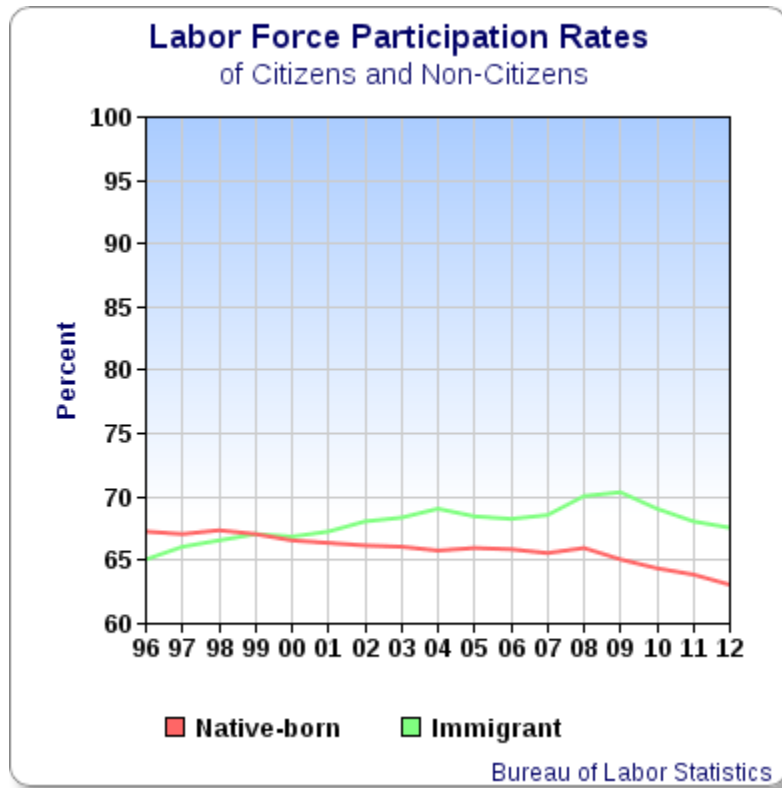
FIGURE 5:



Source: <http://research.stlouisfed.org/fred2/series/CLF160V/>

As various groups have entered the labor force, the overall civilian labor force has increased, including during the past 20 years when we have seen a large influx of immigrants, especially from countries like Mexico and other South American nations. This fact brings up the issue of immigrants from particular countries and the perception many Americans have of these immigrants. Many hold that immigrants from countries with depressed economies such as Mexico are an inherent drain on our economy. But, the Fiscal Policy Institute's report finds that Mexican immigrants make up the largest number of business owners in the US, most likely due to their close proximity to the United States, true, but their businesses make up 12% of new small business started by immigrants. The labor force participation rates for immigrants trends higher than even that of native-born Americans as seen in the chart below.

FIGURE 6:



source: <http://www.bls.gov/spotlight/2013/foreign-born/pdf/foreign-born.pdf>

CHAPTER 5

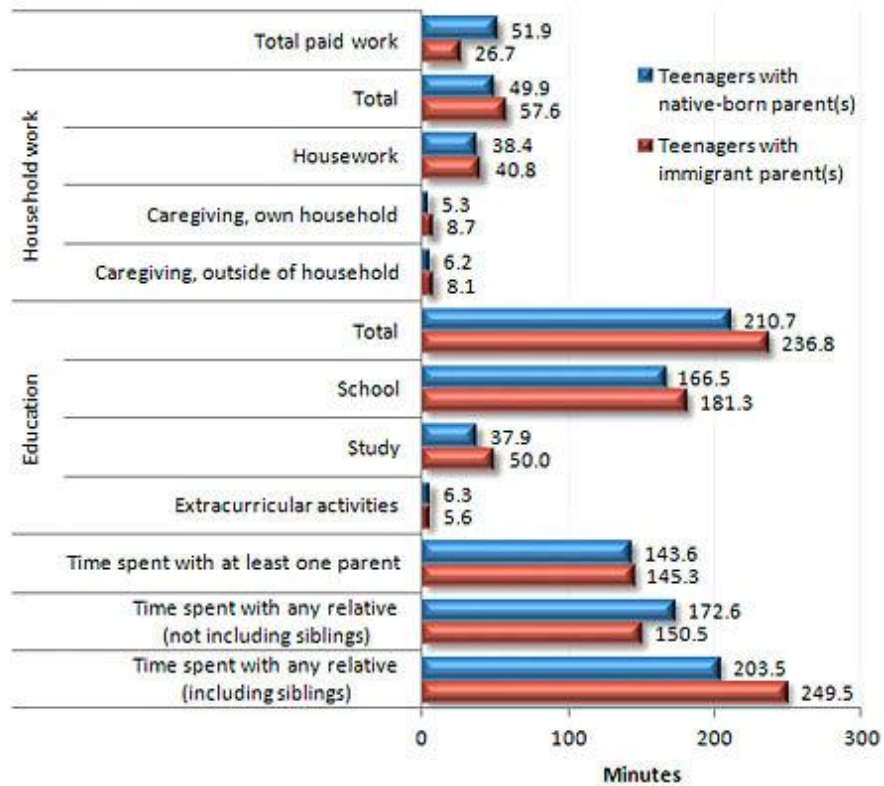
EDUCATIONAL ATTAINMENT BY IMMIGRANTS

In discussing Apple Computer's decision to manufacture many of their products in China as opposed to the United States, founder and CEO, Steve Jobs argued that "You can't find that many [engineers] in America to hire...if you could educate those engineers, we could move more manufacturing plants here" (Isaacson 2011). As noted in figure 2 above, the number of immigrants getting doctorates in engineering is on the rise, nearly even with those attained by

native born Americans. Self reported data shows that children of immigrants study longer hours than native born American children, and they tend to spend more time, overall, at school.

FIGURE 7:

Average number of minutes per day teenagers with native-born and immigrant parents spend in various activities, 15- to 17-year-olds, 2003–2010



Source: http://www.bls.gov/opub/ted/2012/ted_20120712.htm

The number of immigrants in academia alone is growing substantially, along with the number of recipients of advanced degrees thanks to various federal programs such as the Saudi Arabia connections made during the Bush years. According to the National Science Foundation, foreign graduate students in 2010 studying science and engineering numbered around 176,000 up from 172,000 the previous year (Science and Engineering Indicators 2012 2012). These graduate students must often return to their home countries upon receiving their advanced

degrees from top US universities. Universities that run on billions of dollars of American taxpayer money, often essential in research in many areas of science. That is part of the brain drain that many argue will take place on a growing scale as long as we make it difficult for these students with high skills to stay in the United States upon graduation.

It only makes sense that those who attain higher levels of education will earn higher wages, wages that will be spent in the economy, increasing the level of wealth for everyone involved in the entire cycle. With higher rates of labor force participation, we can assume that immigrants tend to have a rigorous work ethic, and at the level that they attain advanced degrees in college, and the amount of time spent studying before college, we have a situation where we can use these skills to our advantage. It is said that the varying skills of immigrants and native born Americans lessens the bottleneck for desired workers in low skilled and higher skilled areas, again because of the complementary nature of much of the skills of immigrants (Furchtgott-Roth 2013). Studies of Hispanic immigrants show that upon entering the US, because of cultural and language barriers, immigrants often tend to have jobs that don't even pay as well as in their country of origin. Despite similar values of human capital, data suggest that it's often where the immigrant comes from that makes all the difference, mostly in terms of isolated living environments upon arriving in the US (Bohon 2005). We know with higher levels of education come greater wages, so that brings us to the issue of policy prescription.

CHAPTER 6

POLICY PRESCRIPTION

It's obvious from the basic economic data that recovery is currently stalled. We're not seeing the target of 3-4% growth in GDP, and many economists seem to suggest this might be the new normal. We need a bold initiative to put our economy on the right track, and an open border is the answer to the problem. There will be issues that arise with a sudden influx of possibly millions of people, but rational people and strong governments can ascertain any changes that need to be made based on the circumstances as they become apparent. If we find that an open border is deleterious to our well being as a nation, we can limit the number of people we allow in, or we can target certain people with certain high-skilled backgrounds to invite in first. There will be upfront costs, but in the long run, the data and history suggest that the benefits will outweigh the initial burden, putting the country on a sustainable path to ever greater growth. The US should, in stages, open its borders, taking the cap off the number of student visas, as well as scrapping the lottery system for green cards that currently dominates the federal immigration policy.

The data suggest that the catastrophe many fear with an influx of millions of foreigners into the country is unfounded. Immigrants don't drain the economy as many suggest, and the data would seem to point to a net benefit for the American economy as a whole. History has shown that open border policies worked well before, and there's no reason to think we can't have the same level of success seen in the past if we follow the same path today. It's time to open the US borders to the benefit of all.

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