Confronting the Immigration Paradox

The Center for
Growth and **Opportunity**
at Utah State University

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Author:

Korok Ray[a]

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a Korok Ray is an associate professor at the Mays Business School of Texas A&M University and director of the Mays Innovation Research Center.

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Executive Summary

How many immigrants should the United States take in? How should it select among potential immigrants? I argue that the United States should adopt an immigration system based on price and take in many more permanent immigrants than it currently does.

The goal of this paper is to inform the design of immigration policies in the United States by proposing a system that allocates immigration slots by price. The paper compares family-based systems, a points-based system, and a market-based immigration system. The key points of the study are:

- The United States should take in a greater number of skilled immigrants in order to maximize productivity. Skilled immigrants range from trade workers to lawyers, scholars, or engineers.

- The best system for maximizing productivity and determining who is admitted is for the government to sell immigration slots—or green cards (an avenue for citizenship)—which would generate revenue that could in turn offset immigration costs.

- The optimal price for which the US government should sell immigration slots is around $80,000. Adopting such a policy would raise $67 billion at current immigration rates and $670 billion if increased to a level the research shows is plausible for the United States to integrate.

Using data on immigration rates, this paper suggests that the optimal price for which the US government should sell immigration slots is around $80,000. This price is large, but it can be paid off over time. If immigration rates stay the same, the United States could raise $67 billion just by selling green cards to immigrants. Because many more skilled immigrants would likely come at this price, this is likely an underestimate of the amount that would be raised.

The central implication for policymakers from this analysis is that the US government should substantially increase the number of skilled immigrants it takes in, and it should do so by pricing immigration slots. Instead of about one million annual immigrants, the United States should be welcoming around 10 million. If done by charging the immigrants, then the government could use the revenue to reduce taxes and help offset costs associated with immigration. Doing so would resolve the immigration paradox, which is the fact that immigration creates large economic gains for the United States, yet US policy severely restricts immigration.

Introduction

The purpose of this article is to propose a system for allocating immigration slots by price in order to optimize the level of immigration to the United States. Optimizing immigration levels means significantly increasing them, which the US labor market could easily afford to do. Doing so would generate billions of dollars in revenue each year. Of course, there are political and social implications of significantly raising immigration levels, such as changes in voting patterns or the provision of public goods. However, these ramifications largely fall outside the scope of this paper. Instead, this paper focuses mainly on the economic benefits associated with increasing immigration and allocating immigration slots by price.

The existence of highly restricted immigration in countries like the United States,which accepts only about one million of the world's 7.5 billion people per year,[1] is best reconciled by the fact that compensation from beneficiaries of more immigration to those harmed by it rarely occurs. This is what I call the immigration paradox—when countries severely restrict immigration despite the large economic gains to be made from it. This is due in part to the fact that the median American voter will prefer little to no immigration, depending on whether he or she receives his or her income primarily from capital or from low-skilled labor.

Unlike the current system in the United States, which prioritizes admitting immigrants with relatives in the country, a system that allocates immigration slots by price can implement any desired level of immigration it chooses. This article proposes a policy for achieving optimal immigration levels in the United States. The next section introduces related studies on immigration policy. The following section examines concerns surrounding immigration and highlights counterarguments to the proposed policy. Next, the article surveys current government policies for rationing immigration slots, and finally, it establishes an optimal immigration price.

Related Studies

Other scholars explore variations of immigration-for-sale policies. Michael Lokshin and Martin Ravallion propose that working citizens of a country be able to rent out their right to work in the form of a work permit to migrant workers for a period of their choosing.[2] Chad Sparber advocates a policy of reallocating H-1B visas according to workers' abilities rather than random lottery, arguing that doing so would increase output and wages and would result in a $26.5 billion gain for the economy over the course of six years.[3] Economist Richard Vedder advocates for a market-based approach. In Vedder's model, visas granting entry to the United States should be sold by the federal government in a "NASDAQ-style marketplace" where immigrants can purchase visas and the revenue can help offset government costs.[4] Gary Becker and Ed Lazear suggest a similar immigration-for-sale model to the one in this paper in which immigrants pay a proposed price of $50,000 to become citizens—a price that can be paid off over time.[5]

This paper expands on existing literature, particularly on the work by Becker and Lazear (2013), by establishing a more comprehensive market price based on current immigration data and economic modeling.[6] Such modeling proposes an optimal price of around $80,000 per immigration slot. If the United States brings in roughly ten times the number of immigrants that it currently accepts, the government could expect to see around $670 billion in revenue from this policy alone. When accounting for lost revenue from the EB-5 visa program, which would be replaced by the proposed

1 Abby Budiman, "Key findings about U.S. immigrants," August 20, 2020, Pew Research Center, https://www.pewresearch.org/fact-tank/2020/08/20/key-findings-about-u-s-immigrants/.

2 Michael Lokshin and Martin Ravallion, "A Market for Work Permits," (Cambridge, MA: National Bureau of Economic Research, December 2019), doi:10.3386/w26590.

3 Chad Sparber, "Choosing Skilled Foreign-Born Workers: Evaluating Alternative Methods for Allocating H-1B Work Permits," Industrial Relations: A Journal of Economy and Society 57, no. 1 (2018): 3–34, doi:10.1111/irel.12203.

4 Joshua C Hall, Benjamin J VanMetre, and Richard K Vedder, "U.S. Immigration Policy in the 21st Century: A Market-Based Approach," Cato Journal 32, no. 1 (2012): 20.

5 Edward P. Lazear and Gary S. Becker, "A Market Solution to Immigration Reform," Wall Street Journal, March 2, 2013, https://online.wsj.com/article/SB10001424127887323375204578271531542362850.html.

6 Edward P Lazear and Korok Ray, "Choosing and Implementing Optimal Immigration Policies," Working Paper, (May 2021), https://www.dropbox.com/s/uyehp77heb2sm08/Optimal%20Immigration%20v8.4.docx?dl=0.

policy, the government could expect to bring in roughly $49 billion[7] per year by selling immigration slots.

Concerns and Counterarguments

Immigration can be concerning both for migrants and for natives in a destination country (in our model, we assume the United States is the destination country). For immigrants, the cost of moving is expensive, and it involves costs other than the physical cost of transport. Other costs, such as leaving family and friends, establishing a new life in a foreign nation, adapting to a new culture, and perhaps learning a new language must be considered. Many immigrants also have concern that they will face prejudice in the destination country, which may come at professional, social, mental, and emotional costs.

For many, however, especially the young (who are the most probable candidates for migration), the total costs are low relative to a career's worth of much higher productivity and earnings in the destination country. Immigrants' families are potentially better off as well, as migrants commonly send remittances to provide for loved ones in the home country. Additionally, the ability to purchase citizenship limits the costly and time-consuming bureaucracy inherent in traditional immigration processes; it also eliminates the need to pay immigration lawyers.

For natives, a primary concern is that large waves of immigration may be a drain on society. Natives often consider immigrants to be threatening to their way of life, standard of living, job prospects, culture, and safety. They fear that influxes of immigrants will dilute the labor market in the home country, risking the ability of natives to get jobs. Despite these negative externalities— real or perceived—there are significant economic gains to be made from immigrants. The challenge is to convince natives to think about immigration as economically essential rather than as a threat to society.

Some immigration-related concerns disappear over time. Immigrant children who grow up in the destination country acquire both the culture and language of that country, thereby reducing or eliminating continued negative externalities that are created by the first generation's immigration. We assume that US natives become less concerned about the cultural impact of immigration when immigrants have English fluency and partake in local cultural traditions. Economically speaking, if production increases alongside increases in labor supply, the negative effects of having a high level of immigrants can be diffused. Higher productivity implies higher economic gains.

From the social planner's perspective, it is worth considering immigration-limiting factors such as scarcity of habitable and arable land before welcoming an influx of immigrants. However, the United States has a large land mass, and urban cities, such as Houston, Denver, or Sacramento, can be recreated many times over with minimal use of vacant land. Arable land is less of an issue because food is a globally tradeable commodity, thus rendering arable land per person largely unaffected by migration. In other words, the United States has the means to feed the number of immigrants it chooses to accept.

In the United States, there is debate on whether immigrants are a fiscal drag or not. This opinion ignores the aspect of immigration beneficial to the US economy. For example, the long queues for

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7 The United States allots approximately 10,000 EB-5 visas annually in exchange for an investment of $1.8 billion. Holly Straut-Eppsteiner, "EB-5 Immigrant Investor Visa," (Congressional Research Service, January 26, 2021), https://fas.org/sgp/crs/homesec/R44475.pdf.

EB-2 and EB-3 visas for workers from India and China indicate gains to employers willing to wait many years for those workers to become permanent residents while employing them on temporary worker visas.[8]

Taken to its logical conclusion, the United States can afford to increase the number of immigrants it accepts. It should therefore sell these slots to much of the world and allow others to benefit from the superior technology and institutions that make US productivity higher than that of most countries.[9]

Survey of Policies

In the United States in the 19th century, barring heavily restricted immigration from Asia, US immigration policy was much less regulated than it is today, and there was not excess demand for immigration slots. Thus, in large part, the market allocated immigration slots and was driven by supply. While many potential migrants were restricted by high moving costs, many of those who found it advantageous to migrate did so. As legal barriers to immigration from Latin America and Europe were low, the United States saw particularly high levels of immigration from those regions.

Since 1965, US immigration policy has prioritized family reunification over all else and has awarded a significant majority of permanent resident slots each year to relatives—immediate or extended—of current residents. Additionally, a fraction of slots are skill-based (although the government awards a small number of slots to those seeking asylum), allocated on the basis of a diversity lottery.[10] For all its merit, the current system, particularly the preference for relatives, does not necessarily conform to the standard of social efficiency or notions of fairness. How can the United States reform its current policy to consider these factors?

A strong preference for relatives over other high-ability migrants can result in inefficiency, particularly when the relative of a resident with low-ability is prioritized over a non-relative with high levels of raw talent and ability.[11] Another path is a first come, first served allocation system that awards slots in a random fashion, although it might favor certain immigrants over others, such as those with high English proficiency, who are better able to navigate the application process. Additionally, some countries, namely Canada, have adopted a points-based immigration system. Individuals are given points based on a number of attributes, which might include age, education, occupation, ability to speak the destination country's language, and having a relative in the destination country. A points system is not a price system. It is best thought of as a way to estimate raw talent or to rank immigrants against one another. More directly, the total points are a proxy for the potential immigrant's likely contribution to the destination country.[12]

Another avenue—the one deemed optimal from the research—for allocating immigration slots is to price them and to allow potential migrants to buy the slots. The price is not explicit, but instead

8 David J. Bier, "Immigration Wait Times from Quotas Have Doubled: Green Card Backlogs Are Long, Growing, and Inequitable," Cato Institute, Policy Analysis 873 (June 2019): doi:10.1163/2210-7975_HRD-9985-20190028, 11.

9 Lazear and Ray, "Choosing and Implementing Optimal Immigration Policies."

10 Andrew M Baxter and Alex Nowrasteh, "A Brief History of U.S. Immigration Policy from the Colonial Period to the Present Day" Cato Institute, Policy Analysis 919 (August 2021): https://www.cato.org/policy-analysis/brief-history-us-immigration-policy-colonial-period-present-day.

11 Lazear and Ray, "Choosing and Implementing Optimal Immigration Policies."

12 Lazear and Ray, "Choosing and Implementing Optimal Immigration Policies."; Jennifer Hunt, "Is a Points System the Best Immigration Policy?," in Refugees and Economic Migrants: Facts, Policies, and Challenges, ed. Francesco Fasani (CEPR Press, 2016), 165–76, https://voxeu.org/article/new-ebook-refugees-and-economic-migrants-facts-policies-and-challenges.

based on a capital requirement, and it is not necessary that the price be paid at once. In this case, the United States could implicitly finance the slot by charging the fee on, for example, an annual basis for a period of 30 years until the loan for the slot purchase is repaid.[13]

A price system treats aspiring immigrants from all source countries fairly. Should the United States adopt such a system, any potential immigrant willing to pay the predetermined price, either upfront or in installments, could become a resident. Unlike the current US system, which indirectly favors certain countries because their residents are more likely to have a relative in the United States (the primary channel of entry currently), the price system admits migrants on a fair and equal basis. Before 1965, source countries were given explicit quotas that were based on the number of people already in the United States from those countries.[14] A straight price mechanism eliminates this form of country-based preference. Additionally, selling slots places undocumented migrants who are currently living in the destination country on the same footing as those outside. Just as compatriots who are currently in the home country, those without resident status who live in the destination country would be free to purchase a slot and would do so under the same conditions as someone in the home country. This policy would not affect student visas or refugee resettlement programs. However, for students who wish to become legal residents in the United States following their studies, the ability to purchase (or finance) a green card offers a straightforward avenue for remaining in the country permanently.

To the extent that natives in the United States are typically wealthier than immigrants, charging relatively poor immigrants may be viewed as a move in the wrong direction. While this may be true, two points are worth noting. First, immigrants willing to pay the price to enter the United States under the price system are almost certain to be wealthier than immigrants who enter under the current system. Second, even if immigrants are poorer than natives, they are wealthy compared to those who remain in the home country. The immigrants are generally richer than other home country residents before migrating to the destination country, and they are made even wealthier by migration.

Pricing Immigration Slots

There are a handful of countries that offer citizenship-for-sale programs today; however, these countries are either very small or are major economies that attract a small number of migrants to these programs. Additionally, most of the existing citizenship-for-sale programs today require additional investment in other forms, such as investments in property, business, or government bonds. For example, Singapore requires an investment of $1,834,054 into one of its businesses to qualify for permanent residence.[15] Alternatively, some countries require investment in real estate and property, such as Portugal, who will grant a temporary visa in exchange for a $554,175 investment into real estate.[16] Some countries allow the investment to take place in government bonds, which returns the principal without interest to the migrant after a set number of years.

13 Lazear and Ray, "Choosing and Implementing Optimal Immigration Policies."

14 Baxter and Nowrasteh, "A Brief History of U.S. Immigration Policy."

15 "Global Investor Programme," Singapore Economic Development Board, accessed August 12, 2021, https://www.edb.gov.sg/en/how-we-help/global-investor-programme.html.

16 "Article 90-A – Residence Permit for Investment Purposes," The Official Website of Portuguese Immigration, accessed August 12, 2021, https://imigrante.sef.pt/en/solicitar/residir/art90-a/.

The United States has a similar policy, offering an EB-5 visa to immigrants willing to invest at least $1.8 million into a business that will employ at least 10 American workers. To get some insight into the scale of this program, the US government offered 9,947 EB-5 visas in fiscal year 2016, a small fraction of the 1.18 million people obtaining lawful permanent resident status in the United States that year.[17] Even at an investment level of $500,000, these 9,947 visas would generate $4.97 billion in private investment, still only around 1% of $457.1 billion total foreign direct investment into the United States in 2016.[18] Thus, even though the United States has the largest investor visa program, it is tiny both in number of visas offered and dollars generated.

How should the United States determine a price for immigration slots? And what should that price be? In our model, the United States is the destination country, and we assume Mexico is the home country. Bearing in mind that immigration prices will vary country-by-country, based on our own economic modeling and calculations of how changes in immigration policy affect wages, we estimate that the optimal monopoly price for immigrants seeking to enter the United States is on average $80,000.[19]

This price is large, but note the following caveats: First, this is a fixed amount that can be collected over time. Second, a pricing policy must be accessible to anyone who is willing to pay the price, and, therefore, a sufficiently high price guarantees the destination country will not be flooded with immigrants that it does not want. Third, estimation of the demand curve is critical in setting this price, and future research will expand this analysis to give more precise estimates of the optimal price. However, the would-be revenue generated from this price is significant, and it is likely an underestimate of the true revenue raised. At current immigration rates, an average immigration price of $80,000 per immigrant would generate $67 billion dollars in revenue. As this policy would overhaul the current EB-5 visa program, which generates about $18 billion in investments each year, net revenue would be roughly $49 billion per year.[20]

The population of migrants who want to come to the United States for free on a family reunification policy will differ from high-skilled migrants, such as scholars, engineers, or trade workers, willing to pay an entrance fee. Of course, an increased immigration price from $0 to $80,000 will likely dissuade some immigrants from migrating to the United States, diverting them to either Canada or European countries where immigration slots are not priced. It is likely, however, that current immigration rates and the existing family reunification policy deters large numbers of Mexican immigrants from even considering applying for immigration, as aspiring immigrants without family members in the United States have a low chance of qualifying for a green card or even a temporary visa. A straightforward fee that anyone can pay for entry may induce many more applicants, resulting in more revenue.

The optimal price will induce enough Mexicans to immigrate that the US government could effectively decide how many immigration slots to make available. There should be enough demand to fill those slots at this price. For example, if the United States increased its number of immigration slots by a factor of 10, a number that the US workforce could easily absorb, the immigration

17 "Immigrant Visas Issued and Adjustments of Status Subject to Numerical Limitations Fiscal Year 2016 Table V (Part 3)," U.S. Department of State, 2016, https://travel.state.gov/content/dam/visas/Statistics/AnnualReports/FY2016AnnualReport/ FY16AnnualReport-TableV-Part3.pdf.

18 "Foreign Direct Investment in the United States," U.S. Department of Commerce, October 3, 2017, https://www.commerce.gov/ data-and-reports/reports/2017/10/foreign-direct-investment-united-states.

19 Lazear and Ray, "Choosing and Implementing Optimal Immigration Policies."

20 Lazear and Ray, "Choosing and Implementing Optimal Immigration Policies."

price of $80,000 would generate $670 billion in revenue, which could offset costs elsewhere. Most importantly, setting a high price will induce those with high skills to immigrate; this population will be more productive than the current crop of immigrants that arrive today under an essentially arbitrary family reunification policy.

The immigration price could be paid out over many years. In particular, employers may be willing to pay this price as an investment in top talent. Moreover, it gives way to the development of new capital markets, which can develop financial products, such as loans, that allow new immigrants to borrow and to pay this entrance fee. Just as banks lend to borrowers, so too will financial institutions develop efficient ways of assessing talent and pricing default risk.

Skeptics question what happens when an immigrant paying for his or her green card with borrowed money defaults on their loan. One can think about what follows when a homeowner defaults on his or her mortgage. First, the debtor's credit score will nosedive, which makes it extremely difficult to rent an apartment or house thereafter and complicates acquiring credit again in the future. Additionally, the debtor might declare bankruptcy, possibly leading to the debtor's wages being garnished and his or her home getting repossessed by the bank. In the immigrant's case, his or her green card could be "repossessed" by the state similar to the way banks repossess homes. If an immigrant financing his or her green card decides to voluntarily and permanently leave the United States—renouncing his or her legal status—before the loan is repaid, his or her visa will simply become available to someone else seeking to enter the country—think of this as the market sorting itself out. Should the same immigrant wish to re-enter, he or she will have to repurchase a green card, thereby restarting the immigration process. In this case, it will likely prove difficult to finance a second green card after abandoning the first loan, which would not only discourage immigrants from abandoning their green cards in the first place, it would ultimately discourage a second migration in the future.

Conclusion

Whereas the current immigration policy in the United States emerged organically through political processes, this article argues on economic principles what an optimal immigration policy should be. The United States could easily absorb a higher number of immigrants than current rates, and it stands to significantly increase productivity by implementing a price system that would attract high-ability immigrants. Additionally, by pricing immigration slots, I estimate that the government would not only see an increase in productivity, but it would reap billions of dollars in revenue each year that could help offset other societal costs associated with increased immigration.