

IMMIGRATION POLICY AND
THE WELFARE SYSTEM

In association with
The William Davidson Institute
at the University of Michigan Business School

Immigration Policy and the Welfare System

*A Report for the
Fondazione Rodolfo Debenedetti*

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Preface

BREAKING A EUROPEAN VICIOUS CIRCLE

Migration is one of those issues which is inevitably bound to divide public opinion and put social cohesion at stake. In every country of the world, there are, on the one hand, those who are keen to host more migrants, who need them desperately to fill vacant positions or to find someone who can pay for their pensions, and, on the other hand, those who fear that migrants will ultimately steal their jobs, increase the crime rate and abuse the state transfers paid out of their pockets. The same individual may, at the same time, both support and oppose migration, do so vigorously. One may frequently hear employers stating that they wish to have migrants from 7 a.m. to 5 p.m., rigorously just during working hours, and then, when it is time to shift to their private life, prefer not to see them around any longer.

Two-sided problems are food for economists. Economics is, after all, the science of trade-offs. When there are non-trivial choices to be made, costs and benefits need to be carefully weighed against each other, appropriate positions, policies, to be found along these trade-offs, then economists typically have something to say.

Economists are also notoriously pragmatic and pragmatism is something seriously lacking when talking about migration. Many positions around are just too extreme to have any chance of being feasible. Consequently, they just feed a debate which is both sharp and inconclusive at the same time.

This book aims at offering a balanced and pragmatic view of the problems associated with international migration. As in previous volumes for the *Fondazione Rodolfo De Benedetti*, it assembles contributions from two teams of leading scholars of the field. In both groups economists are over-represented. Part I presents the contribution of the first team—co-ordinated by Barry McCormick and involved Herbert Brücker, Gil Epstein, Gilles Saint-Paul, Alessandra Venturini, and Klaus Zimmermann—and is focused on Europe. Part II is devoted to the contribution of the second team—led by Gordon Hanson, with Kenneth Scheve, Matthew Slaughter and Antonio Spilimbergo—and draws entirely on the US experience.

The two parts of the volume are self-contained and complementary in that they take a different theoretical and empirical perspective. For instance, Part I goes into more depth in evaluating the consequences of allowing migrants to have free access to the generous welfare state of European countries, whilst Part II has more to say on policies repressing illegal migration as there is much more evidence on this in the US than in Europe.

Much can be learned by comparing the findings of the two parts and trying to interpret the asymmetries between Europe and the US in migration policies,

and perceptions of public opinion on this phenomenon. The comments following the two parts by Giuseppe Bertola, George Borjas, Michael Burda, and Riccardo Faini as well as the final remarks by Olivier Blanchard, Dani Rodrik, and Giovanni Sartori offer useful insights in this direction. This introductory chapter is also adopts this comparative approach. It aims at highlighting the key asymmetries between Europe and the US and querying their potential determinants.

Self-fulfilling perceptions?

In Europe the conflict over migration policy is sharper and less informed than in the US. Radical positions—such as those advocating multi-ethnic societies and full liberalization of migration flows or conversely those, based on xenophobic and racist arguments, strongly opposing any type of migration—are generally more represented in Europe than in the US. Such radical positions develop almost exclusively on ideological grounds. Rarely do movements supporting or opposing migration in Europe bother to find evidence and statistics to supporting their claims. In the US the debate is more informed. It suffices to navigate over the Internet to find many websites of US-based organizations taking a stance on migration, and offering data backing their arguments. This style of discussion has promoted a better knowledge of the issue among politicians and militants as well as among public opinion at large.

A majority of Europeans, according to the Eurobarometer survey, is against increasing the *stock* of migrants, that is to say, they are in favour of a zero migration scenario. Polls carried out in the US point to a different attitude: here citizens wish to maintain migration *flows* at their current levels; they accept the idea of an increasing share of migrants in the total population, but would prefer annual inflows not to continually increase. The perception in Europe is one of ‘the boat is full’ type whilst in the US is just one of gradualism, it looks like a ‘go slowly in letting them in as we have a limited absorption capacity’.

These differences in the preferences of voters across the two sides of the Atlantic dictate different migration policies. In Europe migration is strongly restricted and Governments generally take a very negative and often hypocritical stance on the issue. To give an example, in Germany only ‘temporary migration’ has been legally tolerated for a long time, while thousands of migrants were coming in and finding a permanent residence in the Teutonic lands. More broadly, there are tight restrictions on migration which are poorly enforced. Poor enforcement of migration restrictions is common to the US. But there are important differences in degree: restrictions are looser and more strongly enforced. Europe has more porous borders than the US.

It is difficult to find reliable data on illegal migration as most statistics come from administrative sources which, by definition, cannot capture illegal migration. Illegal migration is generally underestimated, but this seems to be more the case in Europe than in the US, where scholars can draw from better

statistics on border controls. With the above caveats in mind, the estimates reproduced in the two parts of this volume suggest that illegal flows as a proportion of the population can be about one fourth larger in Europe than in the US. At the same time, legal flows are in broadly the same proportions (+ 25 per cent) larger in the US than in Europe.

There is an obvious issue that comes to mind by looking at these figures. Is illegal migration larger in Europe than in the US simply because restrictions to legal migration are too tight in the Old Continent? Part II of this volume repeatedly hints at substitution between legal and illegal migration. In particular, it suggests that restrictions to temporary migration in the US have been associated with a pickup of illegal migration flows.

The substitutability between legal and illegal migration stems also from the fact that illegal migration is fostered by the illegal employment of foreign workers: the latter face the high costs of migration and take the risk of apprehension because they have a realistic expectation of getting a job and an income in the country of destination. At the same time, illegal employment of foreign workers tends to increase in the presence of restrictions to the number of work permits allowed. Indeed, the policy prescriptions in Part II draw on the claim that border controls tend to be less effective than internal controls in repressing illegal migration. Internal controls, however, face strong opposition by employers and, consequently, are poorly enforced. Tight migration restrictions, either encouraging them to enter illegally or keeping their status as 'temporary', also heighten uncertainty among migrants, which reduces their incentives to assimilate, both economically and culturally.

Overall, a vicious circle seems to be at work in Europe. Negative perceptions of migration induce Governments to adopt restrictive policies *vis-à-vis* legal migration, and hence generate more illegal migration. Perceptions are self-fulfilling in that more illegal migration, in turn, strengthens the negative perceptions of migration to start with.

A better understanding of the differences in opinions over migration across the two sides of the Atlantic can give us better tools to break this vicious circle. What can economists say about preferences of Europeans and Americans over migration? To what extent do such differences reflect economic factors, for example, related to institutional asymmetries between the two Continents? Is it possible to make the Europeans more open-minded with respect to migration and support more realistic migration restrictions?

There is much material enabling one to address these issues in this book. One should just read the two parts in a loop and draw comparisons between the two experiences.

Migration as a tax on immobile labour

Europe is a Continent whose workers are less keen to change residence in response to changes in the allocation of employment opportunities. Less than

half-a-percentage point of the European labour force changes region of residence within a year (compared with 2.5 per cent moving across states in the US). These are small numbers. Acute skill shortages and high labour slack tend to become chronic conditions of specific regions; they coexist within the same country even a few kilometers apart. This makes migrants more needed and at the same time more a reason for concern: they are desired and hated at the same time.

A number of institutions are responsible for the low mobility of the European workforce. Some of these institutions play a role within each country: mobility is hindered by the combination of wage compression induced by centralized wage agreements, employment protection regulations making it harder for workers in poor regions to find jobs elsewhere and subsidies to inactivity which also prevent wage underbidding, by marginal workers, to occur. Housing markets often operate inefficiently and owner-occupied dwellings are often subsidized, which makes it more costly to change jobs in response to geographical differences in the allocation of employment opportunities.

Other institutions discourage mobility across EU countries. Linguistic differences are certainly a major obstacle to cross-country labour flows. There are currently eleven different languages within the EU and, after the Eastern Enlargement, they will become 21! But there are also important barriers to mobility arising from a lack of co-ordination of institutions across EU countries, which de facto put a tax on labour flows. For instance, different national regulations of pension funds and no harmonization of taxation rules concerning retirement savings can significantly reduce the pension wealth of workers moving from one EU country to another.

Whatever the reasons for the low mobility of European workers—and the list of potential determinants spans far beyond the usual shopping list of economists, including a number of cultural (the ‘culture of immobility’ discussed in Michael Burda’s comments to Part I) as well as historical factors—there is little doubt that labour in Europe is an immobile factor.

The growing share of non-EU citizens resident in the EU is instead more mobile than the rest of the workforce: according to the European Community Household Survey (ECHP), a pan-European survey tracking individuals even when they change dwelling, about seven out of every hundred non-EU citizens in the working age group change residence every year compared with less than one (0.6) among EU natives. Having more migrants will help Europe become a Continent with a more mobile labour force. Migration can ‘grease the wheels’ of the EU labour market. This fact is often ignored in many debates over migration.

Are immobile workers less keen to accept migrants?

As Europeans are, for a number of reasons, less mobile than Americans, they do not arbitrage away the large spatial differences in labour market conditions

across nations and regions which are present in Europe. It is mainly left to the European population of non-EU citizens who accomplish this task. Migrants locate in the areas which offer the best employment opportunities. They may initially settle at a location close to the border-crossing, but if local labour market conditions appear to be less favourable than elsewhere, it is highly unlikely that they will remain there. Chart 1 offers a visual characterization

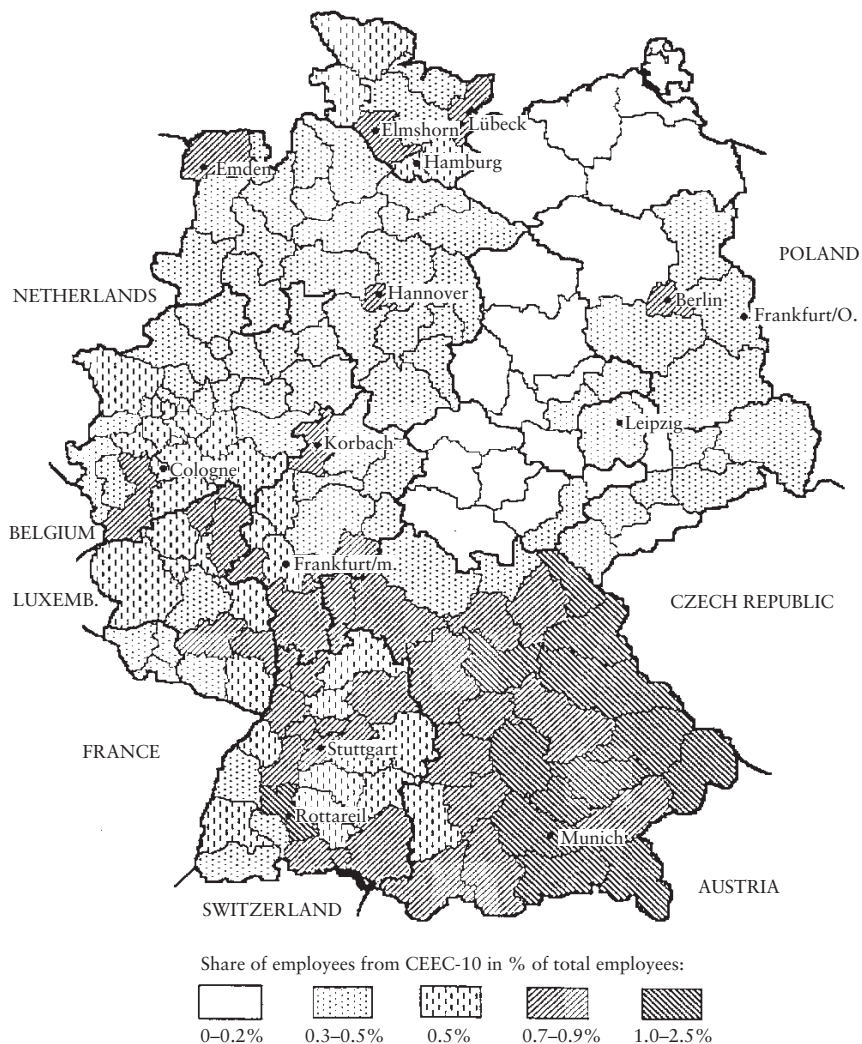


Chart 1. *The reciprocal distribution of employees from Central and Eastern European countries working in Germany*

Source: Federal employment services, authors' calculations.

of the spatial arbitrage accomplished by foreign migrants in Germany, the EU country with the largest foreign population after Austria. It shows that migrants from Eastern European countries to Germany jumped over the eastern *Länders* to find a residence in the western part of the country, which offers better chances to find a job and higher wages. This is the efficient face of migration: it prevents overheating in local labour markets, helping to contain inflationary pressures.

Migrants decisions on where to settle are also based on the generosity of the welfare state. Part I of this book suggests that some European countries are acting as welfare magnets, distorting the composition of migrants (attracting more people who can claim benefits) and also altering somewhat their labour market arbitrage function. They often go where the welfare state is more generous, which does not necessarily correspond to the areas where labour is a more scarce factor. Welfare magnets may also affect the composition of migration flows, for example, by attracting those who are more likely to receive social welfare. These ‘sorting effects’ are discussed (and partly documented) in Part I of this volume.

There is some evidence that migrants are indeed receiving proportionally more social transfers than the native population in Europe. In particular, migrants tend to be over-represented among the pool of recipients of unemployment benefits and family allowances in most EU countries, as documented in Part I of this volume. Only part of these differences can be explained by the observable characteristics of migrants, that is, the number of dependent children, their marital status and skill level. In some of the European countries with the most generous welfare systems (Denmark, Belgium, The Netherlands, Austria, and France) there is evidence of ‘residual dependency’; thereby non-EU citizens receive more social transfers than can be predicted on the basis of their characteristics. Put it another way, the very fact of being a non-EU citizen seems to (slightly, but significantly) increase the chance of being on welfare in these countries.

Under these circumstances, migration can be perceived as a tax on European immobile labour. Unfortunately, there are no data offering information on the propensity to move and on opinions about migrants. However, by combining ECHP data with information from the Eurobarometer survey, it is possible to isolate the characteristics of the less mobile component of the EU workforce and of those who declare themselves to be ‘disturbed by the presence of citizens of another nationality’. The results of this exercise are displayed in Chart 2. They show that many characteristics which negatively affect the propensity to change residence—the fact of being older, less educated, and married—can also positively affect the probability of being ‘disturbed’ by migrants. Xenophobic attitudes towards migrants seem to go hand in hand with a low propensity to move.

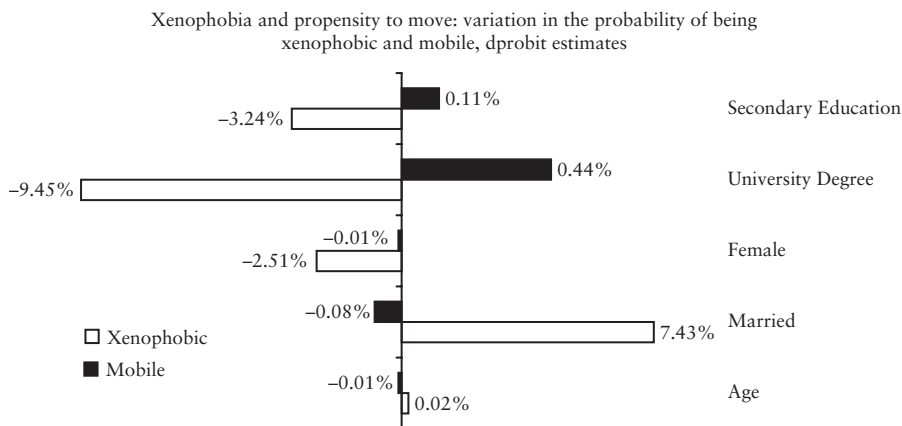


Chart 2. *Xenophobic attitudes towards migrants go hand in hand with a low propensity to move*

The policy response

Summarizing, European immobile workers oppose migration because they perceive it as a tax. More perhaps than the risk of job loss it is the burden on social security and public services at large (education, child care facilities, police, etc.) related to the inflow of migrants which drives these negative perceptions. There are certainly other determinants of xenophobia (e.g. cultural, ideological, and ethnic considerations), but economic factors would seem to play some role as well.

Put another way, while migration is needed because European workers are immobile, the immobility of Europeans makes them less keen to accept migrants. In order to break this vicious circle, three routes can be pursued: (i) restricting access to welfare by migrants, (ii) introducing selective migration policies, and (iii) delegating authority over migration to supranational bodies more capable of resisting pressures of public opinion.

Restricting access to welfare by migrants?

EU rules concerning access to welfare by EU citizens changing country of residence (within the EU) are inspired by the principle of *Equal Treatment* (stated by art 51 of the EC Treaty), which bans differential access to welfare by natives and EU foreigners. In the presence of significant differences in the generosity of welfare systems across Europe, the implementation of this principle is problematic, if not altogether impossible. Suppose, for instance that

a worker having contributed to unemployment benefits for, say, 10 years and having consequently gained access to benefits for two years in case of job loss in country A moves to country B where unemployment benefits (replacing the same fraction of her earnings as in the country of origin) are offered for a person with the same contribution length only for six months at most. If the principle of equal treatment is interpreted as stating that the entire contribution record, the *stock* entitlement of the individual should be evaluated according to the rules in the country of destination, one would treat citizens coming from A less favourably than citizens of B (who always have the option to move to country A gaining potential access to a longer maximum duration of benefits).

Alternatively, one can interpret the equal treatment principle as stating that migrants should gain access to the welfare of the country of destination only on a flow, pro rata, basis. In other words, *past* contributions are rewarded as in country A (and should cover any residual claim of the individual concerning that period of her life), while *new* contributions (and taxes) paid in country B yield the same rights as for citizens of that country. This second, more restrictive, interpretation of the equal treatment principle reduces the incentives of migrants to exploit cross-country differences in the generosity of welfare systems. It also allows individuals to choose the welfare system, the combination of taxes and transfers, which they prefer. However, its enforcement is problematic. Difficulties arise for the defined benefit schemes, such as unemployment insurance and many occupational pension schemes. Even more serious problems arise for the non-insurance components of welfare systems, such as the unemployment assistance benefits offered to persons under long-term unemployment (the European plague) and social assistance, which is typically open-ended (in which case only the stock interpretation of the equal treatment principle is applicable).

Due to these enforcement problems, the equal treatment principle is often applied only in its *stock* version. This means that a more favourable treatment is offered to individuals moving from countries with a less generous welfare system to a country with a more generous system, whose immobile workers have to bear the costs of a larger social security budget. Hence, the economic sources of the opposition to migrants.

The Equal Treatment principle does not apply to non-EU citizens and the European Social Charter itself provides a preferential treatment to EU vs non-EU citizens also on these grounds. However, principles of 'fair' treatment of non-EU nationals, considerations related to the integration of migrants, and political economy factors often prevent Governments from applying different rules in terms of access to welfare to non-EU citizens. Also in this respect, the US experience is enlightening: as discussed in the second part of this volume, many US states found it hard, if not altogether impossible, to restrict access to welfare to non-US residents.

This suggests that restrictions to welfare access, if any are legitimate, should be possibly defined for all migrants, independent of their country of origin.

One of these restrictions is represented by the so-called *Origin Principle* (OP), which states that migrants should stay with the welfare system of the country of origin, that is, keep the contribution levels and entitlements of their original workplace. There are two problems with the OP. The first is that it may obstruct labour mobility in response to negative regional shocks on the part of EU-residents as they may bring with them entitlements which may not be adequate for the country of destination, particularly in the light of significant differences in the cost of living across EU countries and regions. From a macro perspective, this blocks an important channel of labour market adjustment in the presence of idiosyncratic shocks. From a microeconomic perspective, it prevents workers from insuring against labour market risk by taking advantage of being in a larger single market. The second problem is that the presence of workers paying lower contributions and receiving less transfers from the state (and partly the employers) increases competitive pressures on native workers. This is the problem faced by German authorities in the ‘posted-worker case’:¹ construction workers coming from relatively poor EU countries (e.g. Portugal) and non-EU countries were willing to work at wages significantly lower than natives, and lower than the German unemployment benefits.²

The Economic Advisory Board to the German Minister of Finance has recently proposed the introduction of another type of restriction to access to welfare by migrants, namely the so-called *Delayed Integration Principle* (DIP). This proposal assigns individuals to jurisdictions in terms of taxation, social insurance, and social assistance in the country of destination only after some waiting (or transitional) period. It is a thought-provoking idea, but is hardly enforceable and shares the same problems as the OP, that is, it further discourages work-related mobility of EU citizens and exerts competitive pressures on wages of natives which may backfire, as in the German posted-workers case.

Selective migration policies?

A more pragmatic way of coping with the problem of access to welfare by migrants is to restrict migration more than access to welfare itself. This means offering residence permits only to workers, individuals paying taxes and contributions in the country of destination. This is consistent with EU rules: the Treaty allows EU countries to deny residence permits to EU foreigners who cannot prove themselves able to finance their living and/or their families. This *Employment Principle* (EP), advocated also by the OECD Model Convention for the taxation of labour income, has the appealing feature of increasing incentives to work. This is not a minor advantage in presence of employment

¹ See Hunger (2000) for a thorough discussion of this case.

² As mentioned by Bertola *et al.* (2001), the issue was addressed in that case by introducing binding minimum wages for construction work in Germany, applicable also to foreign ‘posted workers’.

rates which are currently too low to finance the ageing of the European population and Governments committed to raise employment to population ratios by roughly ten percentage points by 2010. As the Employment Principle is at odds with regulations which forbid some migrants—for example, asylum seekers—to work, it involves major revisions of migration policies in a number of EU countries.

Problems of enforceability apply also to this principle though. It can only be applied in determining conditions of access of migrants, as there is hardly any administration which can keep track of the employment record of all migrants. Applying the EP literally would mean repatriating the migrant and her family as soon as their capacity to generate revenues (hence pay taxes) in the country of destination is discontinued (e.g. by the fact of experiencing a spell of unemployment) and it is morally unacceptable—apart from political economy considerations—to ‘get rid of the migrant’ as soon as she/he is laid-off.

Therefore the EP principle does not entirely solve the problem. A better strategy may be to try and affect the composition of migrants, for example, by encouraging and/or allowing migration only of those workers who are less likely to be on the dole. As acutely noted by Dani Rodrik in the last section of this volume, the countries applying ‘point systems’ which select migrants on the basis, *inter alia*, of their skill level, typically display native populations more prone to accept migrants. Although there may be reverse causality involved here (countries more open towards migrants may be more favourable to point systems with respect to potentially stricter restrictions), this finding sheds some light on possible strategies for breaking the European vicious circle.

A European migration policy?

Selective migration policies—in terms both of conditioning residence permits to work and favouring skilled migration—have been recently endorsed by the so-called ‘Süssmuth Commission’, a group of experts asked by the German Government to put forward proposals for a new Immigration law. The Süssmuth report seems to be a major step toward more realistic migration restrictions in so far as it bravely abandons the hypocritical stance of formally allowing only ‘temporary migrants’ into Germany. Although well received by unions and employers’ associations, it is not at all clear at the time of writing that the Süssmuth Report will ultimately become a stepping stone to a new migration law.

Other European countries are, instead, still stuck in the vicious circle of having formally overstrict migration policies, hence illegal migration and using ex-post amnesties to ‘regularise’ illegal migrants. Governments in these countries seem to be taken as hostages by voters who press for overstrict migration policies. Under these conditions there may be a strong case for delegating authorities to supranational bodies who are likely to be in a better position to pursue longer-term goals and resist pressures of public opinion to adopt

policies leading to a vicious circle. This is, after all, the same principle that has been applied to monetary policy. The choice to delegate authority over monetary policy to independent central banks (and then to the European Central Bank) acknowledge the fact that Governments are not in the best position to pursue the longer-term goal of containing inflation. Similar considerations can also be made with respect to migration policies. Ulysses should be firmly tied to the mast in order to avoid being pulled out by the siren songs.

A case for stronger EC supranational power over migration policy can also be made based on considerations related to the enforcement of national legislations. How, after all, can national differences in immigration policies be reconciled with the idea of a Single Market for labour? Potential free-riding on border controls calls also for policies co-ordinated and co-funded at the EU level. As well documented in the second part of this volume, border controls are only effective when applied all along the borders. Otherwise, they just end up shifting pressure from one country to another. Finally, a EU-wide approach to migration policies can make it easier to reach agreements with sending countries conditioning migration quotas to the adoption of policies preventing illegal migration (in terms both of border controls and anti-poverty schemes).

If there are many reasons to advocate EU-wide migration policies, the consensus which can be gathered around EU-wide migration policies is rapidly fading away. According to the Eurobarometer survey support for European migration policies has been, since 1993, declining everywhere in the EU (with the only exception being the Netherlands) and there are already many countries where less than 50 per cent of the voters are against delegating authority to the EU on these issues (Chart 3).

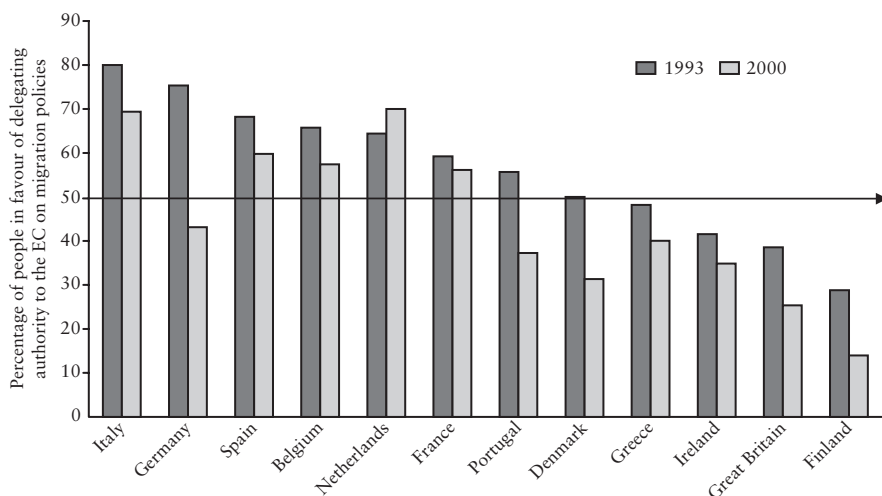


Chart 3. Declining trend in the support for European migration policies

We hope that this book can contribute to a more informed debate on these issues in Europe and to a sense of the urgency necessary on decisions concerning the type of migration policies which Europe needs and the level of Government which should adopt them.

Tito Boeri

Acknowledgements

Both studies were originally prepared for the third European conference of the Fondazione Rodolfo De Benedetti, which was held in Trieste in June 2001. This book draws much on the discussion in Trieste, which involved a qualified audience of academicians, professional economists, representatives of unions and employers' associations, industrialists, and policy-makers.

Needless to say, we are very much indebted to all those who attended that conference and contributed actively to the discussion. In particular, we wish to express our gratitude to Romano Prodi, President of the European Commission, who opened the conference with an influential speech on the scope of European migration policies and to Carlo Azeglio Ciampi, President of the Italian Republic for his message to participants.

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Managing European Immigration

7.1. OPENING EU LABOUR MARKETS

The political backdrop in Europe provides a clear message that a ‘window’ has opened to promote changes in European migration policies. The European Council, meeting at Tampere in October 1999, determined that a common EU policy on ‘asylum and migration’ was called for. The complex and wide ranging impact of immigration policy over social, economic, legal, and cultural areas were considered to undermine reliance on a piecemeal individual country approach to legislation as anticipated in Article 63 of the EC Treaty. Furthermore, the Commission reviews the ‘zero migration’ policies of the past twenty years—mindful of the co-existence of illegal immigration, estimated by Europol at 500 000 persons per annum, and growing skilled labour shortages—and considers that channels for legal immigration to the Union should now be made available for migrants. The not inconsiderable political threats to this ‘open doors’ approach appear to be the consequences of an imminent serious recession and the aftershock of the terrorist attacks on America. Assuming these obstacles are surmountable, what should be the commonly agreed objectives and policy proposals of EU migration policy? We are mindful that migration policies go beyond the immediate issues of the grounds for admission to the EU to include policy against racism, towards assimilation, etc., but in this context we have nevertheless limited our discussion to the more narrow task of policy towards migration flows. We have organized our response by examining migration policy under the channels for migration: Eastern enlargement, family unification, asylum for refugees, illegal migration, and economic migration.

7.2. EASTERN ENLARGEMENT

It is unlikely that Eastern enlargement will have significant effects on employment and income distribution in the affected regions. However, there is a high degree of uncertainty as to the actual outcome of introducing the free movement: migration from the CEECs has been restricted so far. Enlargement policies have to take into account this uncertainty, since introducing the free movement is an irreversible decision.

The policy proposal of staggered integration by the EC will, however, neither reduce this uncertainty nor mitigate the adverse implications on labour markets. First, given the slow speed of convergence, the migration potential from the East will decline only by marginal numbers until 2010. Moreover, by simply postponing migration, little can be learned about the actual migration potential from transitional periods. As a consequence, the EU will stand roughly at the same square in 2010. Second, migration will be channelled, according to statements of the member states (see, e.g. Schröder, 2000), mainly by temporary work permits during the transitional period. Temporary work permits may mainly select low-skilled migrants. This may have, as in the case of guest-worker recruitment, long-term implications for the skill composition of migrants which are enforced by chain migration. As a consequence, transitional periods may have an adverse impact on the skill composition of migrants from the East.

In contrast to this proposal, quota arrangements and safeguard clauses have three advantages: First, they can help to reduce uncertainty on the size of actual migration. If properly designed, utilization rates of quotas provide information on the propensity to migrate. They can be lifted if application rates show that they are not filled up. Both, quotas and safeguard clauses can be easily monitored through work permits. Second, they reduce migration pressures after the end of the transitional period. In contrast to simply postponing migration, the migration potential is reduced step by step if quotas or safeguard clauses are applied. This allows a smooth adjustment. Third, they are either neutral for the selection of migrants (safeguard clauses) or they can affect the skill composition of migrants favourably, for example, when quotas are allocated by point systems which take human capital characteristics into account.

The introduction of the free movement may have adverse implications on the sending countries and regions. The outflow of labour, in particular of high-skilled labour, may reduce welfare of those left behind. Although fears of a 'brain drain' are exaggerated, compensatory policies of the EU should address the sending rather than the receiving regions. Instead of preventing migration, compensatory measures such as allocating some means from the structural and cohesion funds to the education sector in the CEECs will help to increase welfare on both sides.

7.3. FAMILY UNIFICATION

About half of the migration into EU countries arises from the right of those settled in the EU to bring dependants to live with them. This proportion is likely to rise if migration policies are successful. This right is subject to qualifying criteria such as non-dependence on public funds. The share of family unification migration is even greater in the US, comprising 72 per cent of permanent settlers in 1998. The extent to which the flows in this channel of immigration will continue to rise in the EU will have a major influence on the direction of legal inflows: the unanticipated acceleration in the US of legal immigration in

the 1990s is partly due to the emphasis on family ties to persons living in the US as the factor that determines whether a visa applicant is admitted, and the increased tendency for migrants in the past decades to come from low or middle income countries. The incremental recent migration into the EU is also primarily from low and middle income countries, and it would be unsurprising if a similar pattern of rising family unification migration occurs in the EU. In the UK, family unification migration rose by 20 per cent in 1999 and 15 per cent in 1998.

Although there is evidence that family unification has contributed to welfare dependency in some EU countries, the case for restricting such migration is contentious. Policies supporting family cohesion and the nurturing of children lie at the heart of EU social policy, and a change in this area is not recommended. However, EU countries should consider the incentives for immigrant destination choice provided by differing national policies towards family criteria for entry, and in particular that towards siblings. As with other areas of immigration policy the case for a common EU policy is strong. The importance of family unification migration in the EU may well be in setting a baseline of unexceptionable migration that together with the internal social constraints on immigration—described in Chapter 4—will limit the acceptability of migration through other channels.

7.4. DEVELOPING A COMMON EUROPEAN ASYLUM AND REFUGEE POLICY

European Union member states are signatories of the 1951 Geneva Convention which ‘provides for access to work as a direct individual right stemming from the status of refugee and cannot be made dependent on an economic needs test’.¹ The choice of the countries of destination by humanitarian migrants is, similar to other forms of migration, affected by economic benefits and costs.² National standards with regard to asylum and refugee policies differ widely, and, as a consequence, humanitarian migrants are extremely unequally distributed across individual countries in the EU as well as the rest of the world. Moreover, empirical evidence suggests that the labour market performance of humanitarian migrants lags behind those of other foreigners and that they depend on welfare in a disproportionate fashion (Hansen, 2000; Pederson, 2000). As a result, national standards of admitting asylum seekers and refugees have been tightened in several EU countries, among them the most affected country, Germany. Further measures to restrict the admission of humanitarian migrants are under discussion in several member states (Section 4.1). Thus, the national regulation of humanitarian migration is producing a ‘race to the

¹ Communication from the Commission to the Council and the European Parliament on a Community Immigration Policy, 2000, p. 12.

² See Rotte and Vogler, 1998, for empirical evidence.

bottom'. The combination of an unchanging policy towards the scale of family unification, and the expected Eastern enlargement, are likely to reduce the scale of economic and humanitarian migration that EU residents will wish to accept. Insofar as an economic migrant category 'door' is opened to potential EU immigrants then the EU might simply give preference to those coming with humanitarian cases, or vary the economic places by skill according to the scale of humanitarian migration in that skill category.

As long as the EU members and their constituencies rely on the same set of norms, the policy solution is straightforward: agree on a common set of rules for admitting asylum seekers and refugees into the EU, co-ordinate the implementation of the rules, and share the costs of humanitarian migration equally, for example, by a fund for asylum seekers, refugees, and other humanitarian migrants. This will internalize costs and prevent countries with more generous policies being penalized. Against the background of large differences in national standards, the policy problem is to agree on a common set of norms to guide European asylum and refugee policies. A set of minimum standards, which are partially financed at the European level, while national policies remain free to admit further non-financed humanitarian migrants, may be a first step in the right direction toward a common European asylum and refugee policy.

The administrative costs of large fluctuations in the number of asylum seekers that accompanies the present non-coordinated outcomes are very large as the UK is finding—post 1998—with more than twice as many asylum seekers presently entering the UK than the US. These dramatic fluctuations reduce the demand for asylum in the host country, and make a humanitarian policy less popular. The EU countries may need to reach an agreement on which refugees should be protected, but this should not be insuperable.

This co-ordination concerning refugees within the EU might also strengthen the influence of the EU on immigration policy in the other affluent countries. This is not unimportant from the EU viewpoint. Despite very slow population growth, Western Europe remains one of the most densely populated areas of the world, with high marginal congestion costs in comparison with most of the other OECD countries that might absorb refugees.

7.5. ECONOMIC AND ILLEGAL MIGRATION

The EU, with other OECD countries, will experience a secular shift in the demographic structure of its population in the next decades. Low fertility rates and increasing life expectancy will substantially increase dependency ratios, that is, the ratio of the non-working age population to the working-age population. Figure 7.1 displays the general trend on the basis of the demographic scenario of the World Bank: the dependency ratio will start to increase from levels of slightly below 50 per cent in the present EU after 2010, and tend to converge to levels of above 80 per cent around four decades later. This scenario relies, as any other demographic scenario, on a set of strong

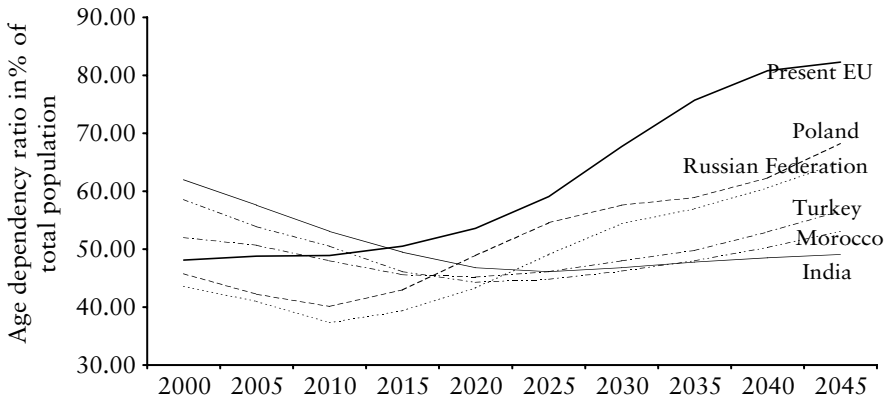


Figure 7.1. Ageing in the EU and in a sample of immigration countries

Source: World Development Indicators, 2000; own calculations.

assumptions, and presumes that migration has only a minor impact on population growth.³ The general demographic trend holds for all EU members. Germany and the southern European countries are, due to extraordinarily low fertility rates, particularly affected.

There is an extensive debate concerning whether it makes sense to manage the demographic structure of societies. Whereas a large number of authors are critical (e.g. Coleman, 1992; OECD, 1991), others argue that immigration can help to provide time for the economic system to adjust (Börsch-Supan, 1993; Straubhaar and Zimmermann, 1993). Generational accounting exercises indeed demonstrate that, after setting off the net present value of claims and contributions to social security systems, the native population will receive a net gain (Bonin, 2001). The electorate, which as we found in Chapter 5 is unsympathetic to policies to facilitate immigration, might also be offered a democratic choice between an older retirement age and greater immigration.

The contribution of migration to mitigate demographic pressures on the welfare systems will nevertheless be in any case limited: following a recent study of the UN (UN, 2000), an average net migration of around 1.4 million people is needed between 1995 and 2050 to maintain a stable share of the working-age population in the EU (2005–10: 550 000 p.a., 2010–50: 1.6 million p.a.). It is unlikely that a net migration of this size can be achieved, since ageing is a global phenomenon: in Figs 7.1 and 7.2 we have displayed the dependency ratios and the share of those aged 20–35 in the male population, that is, the share of individuals which have the highest propensity to migrate, for a representative sample of the main source countries of non-EU foreigners.

³ The World Bank presumes that net migration will decline: starting from 0.8 per thousand of the EU's population in the period 2000–05, it declines to 0.4 in 2006–10, 0.2 in 2010–15, 0.1 in 2015–25 and then to zero.

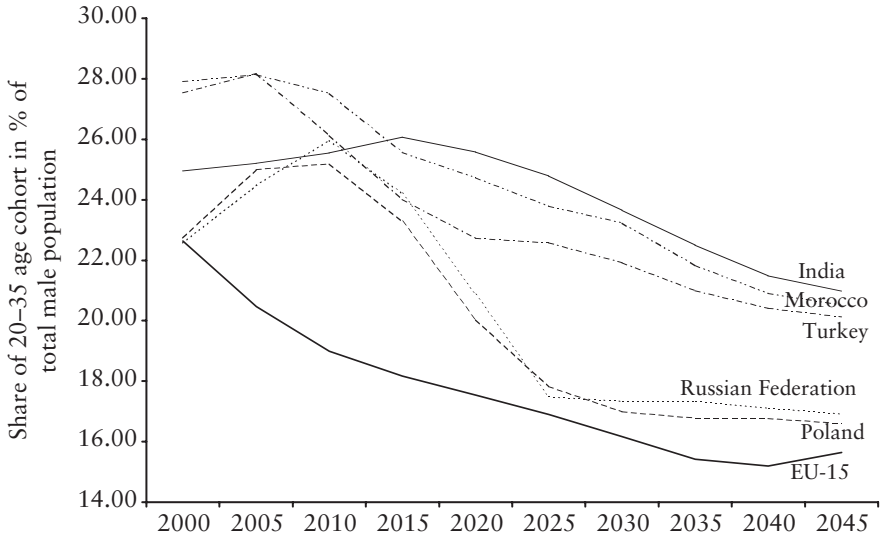


Figure 7.2. *Share of the 20–35 age cohort in the male population for the EU-15 and main source countries, 2000–45*

Source: World Development Indicators, 2000; own calculations.

In source countries with relatively high human capital endowments, that is, the Central and Eastern European countries, we observe a similar pattern as in the EU, with one interesting exception: dependency ratios tend to decline until 2010, since relatively large cohorts reach the working age until this time. After a peak in 2010, the decline in birth rates after transition can be felt and the demographic structure converges to that of the EU (see Coleman, 1993, for a detailed discussion). In contrast, in source countries with relatively low human capital endowments, we observe falling dependency ratios until 2025. The share of the young cohorts in the working-age population tend to fall from 2010 onwards, but they are nevertheless substantially higher than those of the EU and the CEECs. Thus, the shares of the age cohorts with high propensity to migrate tend to fall in countries with relatively high human capital endowments, but remain high in countries with relatively low human capital endowments. As long as education does not improve in these countries substantially, the supply of unskilled labour will therefore tend to increase relative to skilled labour.

As a consequence of the demographic challenge, the opening of EU labour markets to non-EU immigrants is under discussion in the EU⁴ and its

⁴ The formulation of a Common Immigration policy is demanded in Art. 63 of the Treaty of Amsterdam from 1997, without stating a specific time schedule. The European Council asked the European Commission to elaborate policy proposals, see, for example, the recent Communication of the European Commission (EC, 2001). A comprehensive proposal is, however, still missing.

member states.⁵ The demographic challenge is, however, not the only reason to revise 'zero' labour immigration policies. As we have seen in the previous sections, an emphasis upon family unification and humanitarian migration has not given proportionate representation to highly skilled immigration. Economic migration provides an opportunity to balance the skill composition of migrants. Whatever the reasons are, a revision of the policy of 'zero' labour immigration is now on the EU agenda.

Laissez-faire vs selective immigration policies. Complete *laissez-faire* is not a political option, but it forms the implicit counterfactual to all policy proposals. In an economy without externalities or international remittances, the *laissez-faire* approach yields the optimal allocation of labour across countries. However, migrants who pay taxes and contribute to social security systems also receive social benefits and consume goods which are provided by public means. As a consequence, a selective migration policy, which attempts to increase the social benefits from migration by admitting migrants from which it expects that their social contribution exceeds social costs, can increase welfare in the host countries relative to a *laissez-faire* approach.

Selecting high-skilled vs less-skilled workers. In the closed-economy framework, the benefits from migration increase if factor endowments of immigrants are complementary to those of natives. Thus, a country with a high-skilled labour force benefits more from the immigration of relatively low-skilled labour and vice versa—at least if low-skilled labour does not suffer from unemployment. However, in addition to the adverse effect on the income distribution of EU natives, the post-war immigration episode provides rich evidence that unemployment and welfare dependency risks are closely related to the skill levels of migrants. These welfare risks tilt the comparative EU country benefits of migration towards migrants with favourable skill endowments. Moreover, the demand for unskilled labour has declined continuously due to factors such as skill-biased technological change. As a consequence, most OECD countries pursue an immigration policy that favours high-skilled workers, and the EU countries appear poised to recruit extensively university level immigrants to enable economic growth to continue without wage inflation or increased wage inequality.

Point systems vs auctions. For an immigration policy which explicitly addresses the selection of migrants, there are basically two mechanisms to organize the allocation: point systems and auctions. Point systems have been adopted in Canada, Australia, and more recently, in Switzerland. The immigration commission of the German government has recently proposed a similar system. Point systems may improve the allocation significantly relative to

⁵ In Germany, a council of experts under the head of Rita Süßmuth has been commissioned by the federal government to provide proposals for a revised immigration policy. The Süßmuth report proposes *inter alia* the provision of 40 000 work permits p.a. to non-EU foreigners (FR, June 29, 2001).

policies which channel migration by family reunification and other non-economic mechanisms. Point systems are relatively easy to implement, but have a series of deficiencies: (i) the criteria of the system may distort an efficient allocation, since they need not match actual demand on host labour markets, (ii) even if an efficient allocation is achieved initially, time lags between the allocation and the actual landing of migrants may distort the selection, (iii) point systems cannot address unexpected events such as recessions (Bauer and Zimmermann, 2000). Auctions can allocate work and residence permits either to migrants or to firms. At first glance auctions are quite appealing, because an auction selects migrants or firms according to their abilities and needs and their willingness to pay. However, they have two main drawbacks: first, selecting migrants by auctions may yield an unfavourable selection, since high-skilled migrants may move to countries which have no auctions in place. If firms auction for migrants, transaction costs are high. Moreover, the allocation is difficult to monitor and to enforce. Thus, for practical reasons, a favourable composition of migrants with regard to their skills and other human capital characteristics is probably best achieved by an allocation using a points system.

Overall, opening EU labour markets to immigration from non-EU countries is a chance to favourably affect the composition of the EU labour force with regard to their skills and other human capital characteristics. This does not imply that labour immigration should be restricted solely to high-skilled workers, but immigration policies should balance the skill characteristics of economic and ‘family’ migrants in a way that assures that future immigrants will not depend on welfare in disproportionate fashion and strengthen incentives to invest in country specific and other human capital. However, the extent to which a given intake of skilled economic migrants into the EU will balance less skilled migrants from other categories, may well vary between EU countries, so that for language reasons such a policy may reflect more favourably on the UK, than say, France.

The scale of illegal immigration and refugee arrivals (together, about 700 000 p.a.) into the EU reduces the issue of whether to attract 150–250 000 high-skill migrants to rather modest proportions. Arguments regarding the mitigation of the costs of illegal and refugee migration are very important to the EU and contribute to us advancing a further proposal.

7.6. TOWARDS A CO-ORDINATED POLICY WITH COUNTRIES OF ORIGIN

There are two economic reasons which suggest that the EU should cease to pursue unilateral policies towards migration from low/middle income countries of origin: (1) the costs of high (500 000 per annum) illegal flows and the gains from policies to induce efficient policing, and (2) the costs of refugee migration. The origin countries may value the remittances and reductions in unemployment which accompany unskilled migration, but would wish to adopt policies

to mitigate the externality costs that result from skilled worker/entrepreneur migration. It is in the interests of both recipient and origin countries that skilled labour is employed where, net of all non-pecuniary considerations, it is most productive. The origin countries are likely to be concerned that skilled labour should gain overseas experience and savings, but return after a brief period, on the grounds that such workers generate externalities of various kinds and are thus net contributors to the country. The essence of the agreement would provide a framework within which the EU compensates the origin country (assumed middle or low income) for the estimated mean externalities lost by skilled workers' migration, but would reduce the sum with 'fines' arising from illegal flows and violations of domestic human rights standards, partly measured by refugee flows. This is intended to produce a pool of income to origin least developed countries (LDCs), and to encourage origin countries to assist with policies to control illegal outflows.

To implement this, the EU might determine 'skill' by the earnings of migrants in the EU country concerned, and given a base line of (say) mean EU earnings, repatriate x per cent of the individual's tax payments above the tax contribution of a household earning the mean income in that country—along the lines of the brain drain tax as discussed by Bhagwati. Against this income the EU would deduct fines for illegal immigrants, and refugee flows (Sample surveys could be used to gauge tax contributions in order to safeguard invasion of individual migrant's privacy). The partnership with origin countries might prompt the view that permanent migration of skilled workers should be limited to a quota below the laissez-faire level, and a policy institution sought to preserve some of this gain from skilled migration. We have discussed in Chapter 5 how a rotation of temporary migrants allows potentially more workers to acquire savings and skills to use in the origin country, than with permanent migrants who, evidence suggests, gradually lose contact with their origin country. The implementation of such a policy framework would require careful preparation, but by working in partnership with a group of LDCs, this would be a quite different political contract to the 'guest worker' programmes of the 1960s, and instead should be partly viewed as part of the EU international development programme.

The OECD countries presently aim, through foreign aid, various charities, the World Bank and other institutions, to enable LDCs to gradually reach Western living standards. If the talent pool is substantially eroded by unilateral policies prompting a race to hire and assimilate LDC talent, the more realistic future for these countries may at best be a slower growth and at worst, be a permanently lagging region within a world economy in which the US and EU become increasingly dominant. The political, social, and economic implications of this may prove much more costly to unpack than the plunder of third world resources during the colonial period, and reinforce the case for co-operative policies towards immigration and balanced economic development.

Conclusion

Setting immigration policy in any country raises a dizzying array of interrelated questions. Immigration may have substantial implications for the economic welfare of both those countries that send immigrants and those that receive them. Aggregate impacts are just a starting point, however, as many of immigration's biggest effects are distributive. The interests of native citizens can conflict with those of immigrants; in addition, interests can conflict among different groups of natives. These distributive battles have always been a feature of the politics and economics of immigration. However, the rise of the modern welfare state has introduced new sources of economic conflict and cooperation that substantially alter how individuals perceive immigration affecting their interests.

To this mix of economic issues is added the political issues of citizenship, national identity, and international relations. Choosing immigration policy requires countries to answer difficult questions about the definition of and requirements for membership in a political community. In answering these questions, racial and ethnic conflict often arises because immigrants are, by definition, from different communities. An immigrant's decision to leave his or her country of birth is one with substantial costs and risks. More often than not, it is a decision born of economic and political instability in the home country. Consequently, immigration policy helps define a nation's strategy both for responding to political repression around the world and also for addressing the acute poverty that often accompanies such instability.

With all this at stake, there is every reason to expect substantial variation across countries and over time both in immigration policy and also in what aspects of the immigration political debate are most salient. Some of this variation is likely to be systematic and predictable. For example, countries have very different national histories of settlement and colonialism. Those countries with long histories of immigration may or may not be more welcoming to new immigrants, but they are unlikely to spend much time debating whether immigration is in principle consistent with their understanding of citizenship. Differences in political institutions are also likely to account for some systematic variation in the policies and politics of immigration. These institutions can affect the costs and benefits of alternative political strategies for various groups in society (e.g. interest-group vs electoral politics).

To explain all these variations in immigration policymaking in receiving states, a sensible first step is a detailed account of each country's immigration experience. In this Part, we have attempted to produce such an account for the United States. We have evaluated recent patterns in the flows of immigrants, the policies governing those flows, and the effects of those flows on the US economy. Our analysis focuses particular attention on how US regional economies adjust to immigrant inflows, the factors that influence illegal immigration, what the fiscal impact of immigration has been, and what are the key factors that have shaped US policymaking over recent decades. We briefly summarize key findings for each of these issues.

First, we find that the large immigrant inflows into the United States in recent decades appear not to have triggered large wage adjustments, either at the regional or the national level. The largest estimates for wage pressures appear to be for native high-school dropouts at the national level; outside of this case, a wide range of studies finds little compelling evidence of wage pressures. Regions have adjusted to immigrant inflows through other mechanisms, including outmigration of native workers, shifts in output mix towards immigrant-intensive industries, and skill upgrading of the native labour force. This last mechanism may be less important in coming decades, as the educational composition of the US labour force is projected to stabilize. Should this happen, future immigration may be more harmful to the economic well-being of less-skilled US natives.

Second, we document important patterns in the flow of illegal immigrants into the United States over the last two decades. Most illegal immigrants enter the country either by crossing the Mexico–US border or by overstaying entry visas. Mexico is the largest source country for illegal immigration and illegal entry tends to surge following economic downturns in the country. The US government has dramatically increased expenditure on enforcement against illegal entry at the Mexico–US border, raised penalties for hiring illegal aliens, and broadened monitoring of employers deemed likely to hire illegal aliens. These reforms have increased border enforcement at specific points where illegal crossing has been particularly heavy in the past. But enforcement has been slow to increase at other points along the border, which perhaps accounts for why the net inflow of illegal aliens does not appear to have diminished. Illegal migrants change their border-crossing behaviour very quickly in response to changes in enforcement. This renders operations in specific border regions relatively ineffective at curtailing overall illegal immigration.

Despite widely publicized legislation in the 1980s that increased sanctions against hiring undocumented workers, the US government seems reluctant to monitor intensively US employers. Many illegal aliens responded to new sanctions simply by obtaining fake documents, which employers often accept at face value. The hiring of illegal aliens—though not technically of ‘undocumented’ workers—remains widespread in many labour-intensive industries, particularly in the western United States. The US government focuses the vast

majority of its efforts against illegal immigration on the border, where illegal migrants, and not US employers, bear the direct costs of enforcement. These enforcement practices appear to be at least partly a response to pressure from farmers and employers in other labour-intensive sectors, who strongly oppose policing of their hiring practices.

Third, we examine the fiscal impact of immigration. Prior to US welfare reform in 1996, immigrants were more likely than natives to receive public assistance. New laws restrict immigrant access to many benefits, one important exception being costly public education. For some types of public assistance, individual US states have the discretion to offer benefits after an individual has been in the country for at least five years. Excluding immigrants from public assistance has been subject to numerous judicial challenges. Despite immigrant use of public assistance, the net fiscal transfer from natives to immigrants appears to be very small at the national level, though it is higher in a few specific states that have both generous welfare benefits and large immigrant populations. In general, the older and the less educated the adult immigrant population is, the larger are native-to-immigrant net fiscal transfers.

One important feature of recent US welfare reform is devolution: states were granted more discretion over the level of welfare benefits, in general, and whether immigrants have access to specific programmes, in particular. Devolution has reduced the federal government's ability to coordinate a national policy over the attractiveness of the United States as an immigrant destination. This moves the United States closer to the situation of the EU, within which countries differ considerably in the generosity of their welfare systems. Some US states, such as Massachusetts, have committed to replace lost federal benefits for immigrants. Others, such as California, offer more generous welfare programmes of one kind or another. Cross-state variation in immigrant access to public assistance may contribute to the continued geographic concentration of immigrant populations in specific US regions.

Finally, we reviewed the politics of US immigration policymaking. We find that individual opinions about immigration policy are influenced by expectations about its impact on outcomes in the labour market and on public services and the welfare state. In particular, less-skilled workers and political conservatives are among those most opposed to freer immigration. Congressional representatives seem to respond to these concerns in their districts when voting on legislation.

A common theme underpinning political debate over immigration has been distributive conflict. The economic interests of employers, workers, and taxpayers have helped shape the policy preferences and political strategies for immigration policymaking in the United States. Immigration debates have, of course, been marked by other concerns; in particular, those that mobilize nativist sentiments for cultural homogeneity. It is not clear, however, whether non-economic forces have had substantial influence in national policymaking. In contrast, the role of economic interests and the building of strategic coalitions

to protect those interests is evident at all levels of US debate and political activity.

To summarize, the US experience in recent decades is one of sharply rising levels of immigration; a shift in the composition of immigrants towards individuals from Asia and Latin America, who tend to have less schooling than US natives; an increase (at least until the welfare reforms of 1996) in the use of means-tested welfare benefits by immigrants; and a substantial rise in illegal immigration. Against this background, immigration debates have quite naturally focused on the level and composition of immigration, whether immigrants should have access to public assistance, and how to control illegal immigration. We turn to these three issues in Section 14.1 which explores the policy implications of our findings.

14.1. US IMMIGRATION POLICY CHOICES

In the current environment, the United States faces several important choices with regards to immigration policy. Key decisions include whether to replace family-based immigration with skills-based immigration, whether to continue to exclude immigrants from access to public assistance, whether to expand temporary immigration, how to balance border and interior policing in enforcing against illegal immigration, and whether to grant an amnesty to illegal immigrants already in the country. In evaluating these policy choices, it is important to be explicit about one's objectives for setting immigration policy. Actual policymaking involves the aggregation of diverse interests, including concerns about how immigration affects the economic livelihood of workers, the fiscal burden of taxpayers, the availability of public services to US citizens, and the short-run or long-run profitability of firms in different industries. Beyond these narrow economic interests, policymakers may also consider how immigration influences the political power of different interest groups and the cultural identity of specific communities or the nation as a whole. Moreover, the impact of policy alternatives on the welfare of other countries and the United States' relationship with those countries may also be a factor. It is well beyond the scope of this study to propose how policymakers should balance these divergent interests.

Our aim in this concluding section is considerably more modest. We evaluate immigration-policy choices with an eye to minimizing three outcomes: the adverse consequences for low-skilled US workers, net fiscal transfers from native taxpayers to immigrants, and overall levels of illegal immigration. We identify these objectives because they represent concerns that have been at the centre of the US debate about immigration policy; we recognize that they may not necessarily be justifiable in terms of maximizing US national welfare, global welfare, or some other commonly accepted welfare criterion. By identifying policies that recent academic research suggests will address (or fail to address) common complaints about current US immigration policy, we hope to

contribute to the debate about what are appropriate sets of immigration policies for the United States and other countries. Along the way, we also try to highlight how possible future events (e.g. a slowdown in skill upgrading by US workers) or indirect effects of policy changes (e.g. changes in the behaviour of illegal immigrants) may influence the impacts of specific policies.

14.1.1. *Family reunification vs skills-based immigration*

US immigration policies based on family reunification are associated with rising immigration of the less skilled. An alternative policy would be to admit individuals based on consideration of their level of human capital. One commonly-cited possibility would be to establish a point system, in which individual applicants for admission to the United States would be evaluated more favourably the higher their level of education or job-specific work experience, the more in demand their specific occupational abilities, or the more desirable their overall skill profile (see, e.g. Borjas, 1999). Such a system would resemble the framework that Canada has adopted in admitting immigrants (Smith and Edmonston, 1997).

In theory, a shift in immigration policy to favour the admission of young workers with high skill levels would reduce any negative impacts of immigration on low-skilled native workers, enhance the US comparative advantage in knowledge-intensive industries, and generate positive net fiscal transfers from immigrants to natives. The first two of these effects operate through changes in labour supply. Increasing the relative supply of more skilled workers would be expected to increase the relative wage of less-skilled workers, and their absolute wage as well if high-skilled labour complements low-skilled labour in production by firms. The selection for admission of foreign scientists, engineers, and computer programmers, for instance, may increase the level of innovative activity in the United States, and so, following the successful application of these innovations, the demand for and wages of US production labour.

A larger supply of more skilled labour would tend to shift the pattern of specialization towards industries that use this factor intensively, including high-technology sectors, finance, and business services. By shifting the US comparative advantage towards industries that are intensive in the use of skilled labour, less-skilled workers would be more likely to work in these sectors and less likely to work in apparel, food processing, and other labour-intensive activities where they would be effectively competing against workers from low-wage countries.

The third effect of replacing family-based immigration with skills-based immigration—the reversal of net fiscal transfers from natives to immigrants—reflects the fact that young, highly-educated immigrants have had their schooling financed by taxpayers abroad and stand to make tax contributions to the US government over most of their working life. That is, these individuals require few if any public resources to become productive members of the labour force and they start paying US taxes virtually upon arrival in the country. Given

their high earnings ability, these individuals are also unlikely to use much in the way of public assistance.

To the extent US objectives in setting immigration policy are to soften the economic impact on low-skilled native workers, strengthen the country's position in knowledge-intensive industries, and avoid fiscal transfers from natives to immigrants, replacing family-based immigration with skills-based immigration is sensible. But this switch may face some important limitations.

One is that favouring the immigration of the young and highly educated promotes fiscal transfers from other countries to the United States, a policy that may anger foreign friends and undermine development prospects in poor regions. Many in the United States may prefer to replace low-skilled immigrants with engineers from China and India, but the governments of China and India might be highly opposed to such a policy change, for obvious reasons. Apart from harming the economic well-being of poor countries, promoting brain drain at their expense may also undermine US security interests abroad by making immigrant-sending countries less stable economically or politically.

A second limitation of skills-based immigration is that in the long run the distinction between skills and family-based immigration policies may not be so sharp. Given political pressures from immigrant and civil rights groups and the long-standing US tradition of family-based immigration, the US public may find it difficult to admit skilled individuals and not their family members. If this ends up being the case, the admission of one highly-skilled individual may ultimately lead to the admission of four or five individuals in total, via spouses, children, and possibly other dependents. Given the shortage of skilled labour that exists in most countries, we would expect these family members to be less skilled, on average, than the highly skilled individual who seeks admission to the United States. In this case, though skills-based immigration may still raise the skill composition of new immigrants relative to family-based immigration, it may not do so by as much as some might expect.

It is also worth recognizing that a change from skills to family-based immigration would probably encounter intense political opposition. Family-based immigration, though perhaps not intended in its original design, is currently the primary source of new low-skilled workers in the United States. If, as expected, the education attainment of US residents stabilizes in future years, a continuation of family-based immigration could actually increase, for the first time in many decades, the relative supply of less-skilled labour force in the US economy. Employers in labour-intensive sectors would likely object strenuously to the elimination of family reunification as an objective in US immigration policies, as this could undermine their future economic viability.

Another source of opposition would come, quite obviously, from immigrants themselves. An end to family-based immigration would probably leave some family members of US residents stranded abroad. It would also slow the growth (and size of the future potential vote bloc) of specific immigrant groups, perhaps undermining their political power. In the last few years, some politicians

have begun actively tailoring their campaigns to target the interests of immigrants, in part because they are among the fastest growing groups of actual or potential voters. Slowing the growth of specific immigrant communities could dent their political appeal. In the light of these potential effects, we might expect political allies of immigrant voters, such as civil-rights groups, to also oppose an end to family-based immigration.

14.1.2. Immigrant access to public benefits

To limit fiscal transfers from natives to immigrants, an obvious policy would be to expand immigrant exclusions from access to public assistance. In practice, however, such direct policies may be ineffective.

One issue is that the largest transfer most immigrants receive is in the form of publicly funded education. As we saw in Chapter 12, it is both legally and politically quite difficult to restrict the access of immigrants, even those who are in the country illegally, to public education. More broadly, excluding immigrant access to public assistance may be difficult to sustain in the long run. For one, it may violate the equal-protection clause of the US Constitution. Recent experience shows that such exclusions are often challenged and overturned in court. Though fiscal conservatives succeeded in attaching tough immigrant-exclusion provisions to US welfare reform in 1996, these provisions are slowly being chipped away over time thanks to judicial challenges, US states choosing to restore benefits taken away by the federal government, and the US Congress reversing some aspects of welfare reform deemed too harsh on immigrant families (or too costly politically). Immigrant exclusions remain a political battlefield. In the near term, at least, it seems likely that they will be eroded further.

An alternative means to limit native-to-immigrant fiscal transfers, if this indeed is the desired policy objective, is the indirect policy of selecting immigrants who are likely to make positive net fiscal contributions, as would conceivably be accomplished by a switch from family-based immigration to skills-based immigration. Adopting skills-based immigration sidesteps the politically and legally complex issue of which individuals can have access to public benefits. If immigration standards select individuals who make relatively little use of public assistance and who make relatively large tax contributions, then fiscal transfers from natives to immigrants are likely to be negative (or at least small, if positive) under any set of rules governing which individuals may receive public benefits. Along with a switch to skills-based immigration, however, would come the potential pitfalls we have just discussed.

14.1.3. Controlling illegal immigration

A change from family- to skills-based immigration may alter the behaviour of illegal immigrants. Individuals who find themselves cut off from opportunities

for legal immigration—such as those with family members in the United States but who do not meet the skill requirements of a new policy—may choose to immigrate illegally. Indeed, many individuals who have applied for US legal residence under family-based immigration provisions are already in the United States, having chosen to wait out the often-lengthy application period as illegal aliens (with apparently little prospect of facing US legal repercussions). Many current legal immigrants thus have been willing to become illegal immigrants, at least for a period of a few years. All else equal, a switch from skills- to family-based immigration could increase attempted illegal immigration, possibly by a substantial amount. If the US objective is to reduce illegal immigration, or at least maintain it at somewhere near current levels, complementary policies would be needed.

The current US policy mix of heavy border enforcement, light interior enforcement, and low levels of temporary immigration of manual labourers appears to be ineffective at stemming the tide of illegal immigrants. One alternative is to reduce the supply of illegal immigrants indirectly by increasing temporary immigration of manual labourers, coupled with an amnesty of existing illegal immigrants; another is to reduce the demand for illegal immigrants by increasing employer monitoring.

Current proposals by the administration of President Bush would increase temporary immigration of manual labourers to a level roughly equal to the current level of illegal immigration and grant an amnesty to some fraction of the illegal immigrants currently living in the United States. Such a policy would in effect seek to replace an unregulated, long-run supply of illegal workers with a regulated, short-run supply of legal workers. By granting an amnesty to illegal immigrants, perhaps similar to that enacted by the Immigration Reform and Control Act of 1986, the United States would begin with a clean slate, so to speak, in the sense of having legalized both the stock and flow of immigrants in the country. In theory, large-scale temporary immigration would be effective at curtailing illegal immigration if US firms viewed illegal workers and temporary legal workers as close substitutes and if potential migrants viewed temporary migration as reasonably comparable to illegal migration.

There are reasons to doubt that the latter condition holds. An increasing fraction of illegal immigrants live and work in cities. They have long-term relationships with employers and an established presence in their communities. They also may expect to become legal US residents some day, either because they have pending applications for legal residence with the Immigration and Naturalization Service or because they expect to be eligible for some future amnesty offered to illegal immigrants. Temporary immigration precludes such permanence, precarious as it may be, as well as eligibility for an amnesty. For some migrants, then, temporary immigration may be an inferior option to illegal immigration. This suggests that for expanded temporary immigration to be effective, it would need to be coupled with effective enforcement against illegal entry.

Even if temporary immigration were to succeed in reducing illegal immigration, the question remains of what objective would have been achieved. The impact on labour markets and industrial specialization of equivalent inflows of temporary and illegal workers may be very much the same. And the impact of the two inflows on fiscal balances may also be similar. Temporary immigrants would probably have access to certain restricted public benefits while in the United States, but could be taxed to pay for these benefits, leaving a neutral impact on government budgets. Illegal immigrants are barred from receiving public assistance, but are entitled to receive emergency medical care and to send their children to public schools. At the same time, they appear to make contributions to social insurance coffers, on which they do not collect. On balance, it is unclear whether their fiscal contribution is positive or negative. Even if it were negative, there are other factors favouring illegal immigration. Having a long-term presence in the country may induce illegal migrants to make productive investments in human or physical capital that temporary migrants, given their short-run employment contracts, are unwilling to make. Illegal immigrants, then, may be more likely than temporary immigrants to acquire labour-market experience and skills that are matched to the specific needs of US employers. In sum, expanded temporary immigration may change illegal immigration in name only, without much changing its impact on US labour markets, public finances, or industrial competitiveness.

An amnesty for illegal immigrants would carry symbolic importance, and might modestly improve the living conditions of these individuals, but it would be unlikely to have large impacts on national labour-market outcomes or public finances. Employment of illegal aliens is widespread in the country. A large fraction of these individuals have fake documents testifying to their permanent legal residence and to their membership in the social security system. From the perspective of some employers, these individuals are legal immigrants. Given that native-to-immigrant fiscal transfers are small, that recent immigrants, whether legal or illegal, have lost access to many forms of public assistance, and that children of illegal immigrants already have access to public education, an amnesty would be unlikely to lead to large new claims on public benefits by legalized immigrant households. An amnesty may, however, lead to an increase in applications for legal admission, as the relatives of newly legalized residents become eligible for family-sponsored immigration, and an increase in illegal immigration, as the belief that by holding out long enough illegal aliens can attain legal status is reinforced.

An alternative policy on illegal immigration is expanded monitoring of employers. Though US law forbids hiring illegal aliens, enforcement of the law appears to be quite lax. Fines are small and infrequently applied, and many plant visits by the Immigration and Naturalization Service are announced in advance. By establishing large fines for hiring illegal immigrants and by conducting random, unannounced inspections of worksites the US government could curtail the demand for illegal labour. In a given year, a single INS agent

can inspect dozens of firms employing thousands or tens of thousands of workers but can apprehend relatively few illegal immigrants at the border (and even fewer illegal aliens in the country as a result of overstaying temporary entry visas). A reduction in demand for illegal labour would in theory lead to a reduction in illegal entry, as the reduction in wages and/or loss in jobs would potentially dissuade many prospective migrants from attempting to cross the border. The main obstacle to greater employer monitoring appears to be intense and highly organized political opposition by employers.

Switching from an emphasis on border enforcement to one on worksite enforcement would also probably shift the incidence of some enforcement costs from illegal immigrants to employers, which perhaps accounts for employer opposition to interior policing (a further reason they may oppose interior policing is that they may expect it to be a more effective policy). Either border or interior enforcement may lower the level of illegal immigration, raising the expected wage employers must pay (due to a lower supply of illegal labour) and lowering the expected wage illegal immigrants receive (due to higher expected costs of crossing the border and/or finding a job). But the relative variance in outcomes for employers and illegal immigrants differs sharply under the two policies. With border enforcement, the variance in outcomes for employers is low (lower labour supply and higher wages) but for illegal immigrants it is high (given uncertainty regarding evading the Border Patrol, being treated fairly by smugglers, or crossing through harsh environments safely). With a comparable level of interior enforcement (in terms of the supply of illegal labour), the situation is reversed as the variance in outcomes for employers is high (small probability of large fines and other legal repercussions) but for illegal immigrants is low (lower labour demand and wages). Given a desire to lower illegal immigration, switching from attempting to manage the supply of illegal labour to attempting to manage the demand for illegal labour targets agents who are relatively easy to identify (hiding agricultural fields, construction sites, or hotels or restaurants is difficult) and prosecute (treating a few guilty subjects harshly sends a strong signal). It may also be a more humane policy in that it may tend to replace physical risk taking (illegal immigrants crossing deserts) with legal risk taking (employers facing large fines).

The key to changing current and future economic impacts of immigration appears to be changing the skill composition of new immigrants. This could be accomplished by replacing family reunification with a skill criterion as the basis for legal immigration. It would also require as a complementary policy stronger enforcement against illegal immigration, including more active worksite monitoring. At the present time, political conflict over immigration policy has produced an impasse, making wide-ranging reform unlikely in the near future. But, as the process of welfare reform in the 1990s makes clear, pressure for large-scale policy changes can build very quickly.

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