

Presidential Executive Actions Halting High Skilled Immigration Hurt the US Economy

By Giovanni Peri, University of California, Davis
Chad Sparber, Colgate University

On June 22, the Trump Administration issued a proclamation suspending the processing of new visas for high skilled foreign workers seeking US employment through the H-1B and related programs. The administration argued that “Under ordinary circumstances, properly administered temporary worker programs can provide benefits to the economy. But under the extraordinary circumstances of the economic contraction resulting from the COVID-19 outbreak, certain nonimmigrant visa programs authorizing such employment pose an unusual threat to the employment of American workers (White House 2020).” That view is myopic and inconsistent with what we know from economic research. Moreover, it represents just the latest of several recent decisions from the current administration designed to discourage many forms of legal entry for skilled foreign workers. In fact, economic evidence suggests that such restrictions will reduce long-term economic growth while also failing to increase the employment of Americans. In short, the suspension of H-1B visas will ultimately have a negative impact on the American economy.

The H-1B Program

The H-1B program allows high-skilled foreign-born workers in specialty occupations to temporarily work in the United States (US Dep. of Labor 2020). New H-1B issuances are capped at 65,000 per year, plus an additional 20,000 for workers who have obtained a master’s degree or higher education from a US institution. Employees of universities and non-profit research institutions are exempt from this cap.

Limits on new H-1B issuances have not changed for 16 years despite evidence that those workers are in high demand from public and private US employers. The program is vastly oversubscribed in the sense that the number of cap-bound applications far exceeds the number of available H-1Bs. United States Citizen and Immigration Services (USCIS) has received around 200,000 applications during the first week of the application period in each of the last several years and has allocated H-1Bs by a random lottery. Consequently, each year, many companies are unable to hire the workers they choose to fill their positions. The H-1B system is also somewhat rigid. For instance, firms cannot reallocate an H-1B approval from a lottery winner to a losing job candidate whom it would prefer to hire if they sponsored more than one person for an H-1B.

In addition, the H-1B program is not perfect and there are several proposals to improve it. For instance, close employer/employee links inherent to the program might limit labor mobility and shift market power to firms. While some people emphasize that H-1B workers are “tied” to their company in a way that make them exploitable, evidence in Depew, Norlander, and Sorensen (2017) and Hunt and Xie (2019) suggest that workers are more mobile than critics fear. We have separately written articles describing how to improve the H-1B program by injecting market mechanisms into the

allocation process. Sparber (2018) argues that GDP would increase by \$26.5 over a six-year period if the government abandoned the lottery and instead allocated H-1Bs according to firm willingness to pay (that is, to applicants with the highest wage offers). Peri (2012) argues for an auction mechanism in which the total number of available H-1Bs would be tied to national labor market conditions, declining in a recession and expanding in a boom. This has nothing in common with the policy of the current administration. First, it would have implied an expansion of the number of H-1Bs during the past ten years when the US was characterized by strong economic growth and – at least in the last three years – tight labor markets. Second, the “right” average number of new H-1B workers is certainly not zero. We have written several papers arguing that the H-1B program should expand, not contract, because there is ample evidence on the long-term benefits of high skilled foreign labor for the American economy.

The Economic Effects of High Skilled Foreign Labor

The National Academies of Sciences, Engineering, and Medicine (2017) survey on the economics of immigration summarized the consensus of economists and social scientists when it stated, “The infusion by high-skilled immigration of human capital... has boosted the nation’s capacity for innovation and technological change. The contribution of immigrants to human and physical capital formation, entrepreneurship, and innovation are essential to long-run sustained economic growth. Innovation carried out by immigrants also has the potential to increase the productivity of natives, very likely raising economic growth per capita. In short, the prospects for long-run economic growth in the United States would be considerably dimmed without the contributions of high-skilled immigrants.”

These conclusions are driven by evidence from three related lines of research that have emerged over the last decade. The first – mostly associated with work by Hunt and Gauthier-Loiselle (2010) and Hunt (2011, 2015) – argues that immigrants are on average more entrepreneurial and innovative than natives. Part of this can be explained by the drive and motivation that selects several highly entrepreneurial and motivated people to migrate (Anelli et al. 2020). Another part of it is explained by the selection process by US companies and US universities. American-born workers exhibit a full distribution of skills and ability, some of whom are quite innovative and some of whom are not. In contrast, US universities and employers only select the highest skilled foreign students and workers to enter the country. The average skill sets of those immigrants will be highly targeted to success by design. In other words, the US attracts the best and brightest from the world to its universities, companies, and laboratories.

The second reason recognizes important differences in the occupations, college majors, and skill specialization between native and foreign workers. This enriches the set of available skills in the US and the diversity of abilities associated with greater productivity and innovation potentials in the aggregate. Evidence in Peri and Sparber (2011), Orrenius and Zavodny (2015), Shih (2016, 2017), Bacolod and Rangel (2017), Lin (2019) and others argues that among high skilled workers, immigrants tend to specialize in quantitative skills and STEM fields whereas natives specialize in communication and social skills. The combination of these two types of skills allows the US to produce, innovate, and grow at a faster rate. Moreover, the observed skill differences and complementarities between natives and immigrants are a key reason why economists do not find job displacement following the inflow of immigrants (e.g. Ottaviano and Peri 2012, Peri and Sparber 2009). Immigrants, especially the highly skilled ones, generate local opportunities for firms and US workers that imply no overall decline in US employment or wages.

The third reason finds its roots in the research in economic growth (e.g. Jones (2002)) arguing that scientists and engineers create new technologies that generate positive production externalities and are responsible for half of long-run US productivity growth. Such growth, in the long run, is crucial to enhancing income per capita and wages, and hence for sustaining better conditions for large parts of the US economy. As it is true that high-skilled immigrants specialize in STEM work and that STEM workers are responsible for half of US economic growth, then it follows that high-skilled immigrants are responsible for a large share of US economic growth. A number of empirical studies have validated this argument including Kerr and Lincoln (2010), Kerr, Kerr, and Lincoln (2015), and Gunadi (2019). Peri, Shih, and Sparber (2015) argue that “inflows of foreign STEM workers explain between 30% and 50% of the aggregate productivity growth that took place in the United States between 1990 and 2010.” An important corollary is that by attracting and hiring high skilled immigrants, US cities and local economies can feed a virtuous cycle of increased growth and more opportunities for

US workers. There is strong evidence (e.g. Moretti 2010) that one high-skilled job generates a “local multiplier” attracting other jobs rather than displacing them.

It is in this context for missed growth opportunities that high skilled immigration restrictions cause particular alarm among economists. The world competes for global talent. Lost technological and productivity growth in the US could mean increased growth elsewhere. For example, Glennon (2020) argues that H-1B restrictions cause firms to increase their offshore operations, particularly in Canada, India, and China. Such losses in the competition for productive skilled labor inflows prompt Kerr et al. (2017) and Kerr (2019) to refer to restrictions on H-1B and related skilled labor inflows as a form of “national suicide.”

Immigration Policies in Times of Economic Crisis

Times of economic contraction lead to potential changes in immigration dynamics. On one hand, contractions temporarily reduce the incentives to immigrate for economic reasons (see Cadena and Kovak (2016)) and generate a decline in the inflow of immigrants. On the other hand, economic crises may generate anti-immigrant sentiments in the population. These two forces have converged in the past leading governments to pass strong anti-immigration policies with long-term negative effects on the economy. An example is the Hoover administration’s encouragement of Mexican repatriation during the Great Depression. These actions violated civil rights (Johnson 2005) and, as shown by Lee et al. (2019), hurt job opportunities for natives since those massive deportations contributed to the decimation of economies close to the Mexican Border, leading firms and other American workers to leave.

The continued reduction of opportunities for legal immigration produced by this administration’s executive orders will likely have no positive short-run effects but will risk dire long run implications. This takes place against the backdrop of already declining US immigration in the last ten years (see [Immigration Fact](#) by Giovanni Peri). The restrictive policies of the last three years, culminating with the halt of H-1B processing in this latest Executive Order, will deprive the US of skills and talents that would have helped the economic recovery.

Relevant Immigration Policy Changes by the Trump Administration

NAFSA: Association of International Educators (2020) records a non-exhaustive list of 14 executive orders, presidential proclamations, and presidential memoranda aimed at reducing immigration flows that have occurred during the Trump Administration. Particularly significant policy decisions have been followed by several smaller agency-level memoranda that have altered the governance of the nation’s immigration system. Taken together they constitute an alarming push towards more restrictive immigration policies, only recently justified by the COVID-19 emergency.

Relevant changes regarding foreign-born college students and skilled workers have included the following:

- Attempts to repeal Deferred Action for Childhood Arrivals (DACA);
- Requirements for USCIS adjudicators to apply the same scrutiny to applications for H-1B renewals as it does for new petitions;
- Increased issuances of Requests for Evidence (RFEs) on H-1B petitions;
- The suspension of premium (fast track) processing for H-1B petitions;
- Increased limitations for workers on H-1B and Optional Practical Training (OPT) status (that is, recent US college graduates) from working at third-party client sites – a significant limitation for software and other consultants;
- Increased site visits by Immigration and Customs Enforcement (ICE) agents (see Fitzgerald and Singh Rogers (2018)).

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Global Migration
Center
UC Davis
1 Shields Avenue
Davis, CA 95616

Thus, even if one accepts the argument that restrictions are justified during downturns, there remains a worrying reality that the June 22 proclamation represents just the latest in a series of the administration's efforts to curtail legal immigration. Economic evidence shows that the long-term consequences of these actions on reduced GDP and productivity growth are potentially disastrous.

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