

## **Market Approaches to Immigration Restrictions**

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The recent history of the United States has been marked by what seems to be an increase in concerns about immigration. An example is a very sharp bit of rhetoric provided by Peter Brimelow in his book *Alien Nation* (1995, xv), where he talks of a renewed mass migration, so huge and so systematically different from anything that had gone before as to transform and, ultimately, perhaps, even to destroy ... the American nation. Apart from its tone, this remark betrays a lack of understanding of the history of American immigration.

What Brimelow ignores are at least two other mass migrations that were of substantially larger magnitude when measured as a fraction of the resident population. First, there was the flood of Irish and German immigrants in the thirty years preceding the American Civil War. The annual influx of aliens in this period at times reached a level equal to one percent of the resident population, two to three times the current volume of immigration. And, it was not well received. Many critics, including Samuel F. B. Morse, fretted about the impact of immigration. In fact, Morse titled his 1835 broadside, *Imminent Dangers to the Free Institutions of the United States through Foreign Immigration*. Apparently, Morse saw the immigrants of that time through the same lens that Brimelow employs in examining contemporary immigration to the United States.

A major complaint about the Irish and German settlers of this era was that they were not of the same good stock as previous immigrants (who were predominantly English). Sixty years later,

when annual immigrant flows again reached one percent of the resident population, during the second great mass migration, the very same complaints were being registered concerning immigrants from eastern and central Europe, although now these immigrants were being contrasted unfavorably with the earlier Irish and German settlers. A prominent historian, Nathaniel Southgate Shaler (1894, 1283) wrote about immigrants as follows: ASo far as these people came to us from Great Britain, Scandinavia, and Germany, experience shows that little or no perturbation of our society is likely to arise from their presence among us ... It is otherwise with the immigrants who come to us from eastern and southern Europe, and who are from states whose history has been so different from our own that the people have had no chance to acquire the qualities which are needed by our American people.@

This brief historic summary suggests that Brimelow is speaking in the same tradition as Morse and Shaler. In this, he is accompanied by others, particularly George Borjas (1990, 1994a, 1994b, 1998, and 1999), who claims that today's immigrants are less skilled than those of the past. What is puzzling about these positions is the extent to which they ignore a generalization that seems to run throughout the American immigration experience, namely, that each new generation of immigrants is viewed in an unfavorable light compared to earlier immigrants. Of course, the converse of this proposition is that over time, previous generations of immigrants are perceived in an increasingly favorable fashion. There are sound reasons underlying these notions:

- § Immigrants have typically come to the United States relatively poor and unproductive but learn quickly to adjust, with average income approximating those of native-born Americans within a decade or so after arrival.

- § Immigration does not reduce job opportunities for native-born Americans (Vedder, Gallaway, and Moore, 1990). Nor is there evidence, either earlier in our history or today, that immigration leads to increased unemployment.
- § The notion that immigrants are a significant net burden on the resident population is fallacious, particularly in today's world (Vedder, Gallaway, and Moore, 2000). If anything, the opposite is probably true, as a relatively young immigrant population reduces the social burden of providing for older Americans.
- § In the long run, immigration raises national income and output, and contributes to maintaining a dynamic, growing, society.
- § Immigrant settlement patterns on arriving in the United States reflect a substantial knowledge of differential economic advantages within the United States. This is true even among illegal immigrants (Vedder, Gallaway, and Eckl, 1996).

### **A brief history of immigration restriction**

With these broad historical generalizations in mind, we now turn to a brief survey of the phenomenon of immigration restriction. Arguments for restriction have been with us for some time, primarily because immigrants represent the cutting edge of economic change. As such, they present a challenge to the *status quo*, including existing socio-economic structures. In the early years of the United States, these concerns generally lacked political cohesion. However, this very nearly changes in 1856 when the Know-Nothing Party, a largely anti-immigrant organization, offered a former President of the United States, Millard Fillmore, as its presidential candidate in the

national election, capturing more than twenty percent of the popular vote in the process. Temporarily, this represented the high-water mark of the forces of immigration restriction. Following 1856, the dominant political issue was the slavery question. The volume of immigration fell and for most of the remainder of the nineteenth century, immigration restriction sentiment focused largely on orientals. By 1880, both the Republican and Democrat party platforms advocated an end to Chinese immigration (McKee, 1906), leading to the Chinese Exclusion Act of 1882.<sup>1</sup> The situation with respect to Japanese immigration was handled in a more informal way, culminating in the "Gentlemen's Agreement" of 1907 in which the Japanese government assumed an obligation to limit emigration from Japan to the United States.

In the early years of the twentieth century, the forces of immigration restriction made steady progress. In 1903, a two dollar head tax was inaugurated and, contemporaneous with the Gentlemen's Agreement in 1907, it was raised to four dollars. At the same time, a commission to study immigration was established. This body, the United States Immigration Commission, produced more than forty volumes of material. Its report, calling for a literacy test for immigrants, was submitted in 1911. Ultimately, in 1917, the Commission's recommendation was enacted into law over Woodrow Wilson's veto. Accompanying it was another doubling of the head tax.

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<sup>1</sup>The specific information from McKee is: From the democratic platform, "No more Chinese immigration, except for travel, education, and foreign commerce, and therein carefully guarded." From the Republican platform: "... the Republican party, regarding the unrestricted immigration of Chinese as a matter of grave concern ... would limit and restrict that immigration by the enactment of such just, humane, and reasonable laws and treaties as will produce that result."

The most significant actions to limit immigration came in 1921 and 1924. In 1921, the first nationality quotas were instituted for European countries, three percent of the foreign-born population of a given nationality as of the 1910 Census. This was changed, in 1924, when the quotas were made more restrictive, especially for the more recent immigrants. At this time, the quotas were reduced to two percent and, more importantly, the reference Census was moved back to 1890, a time when far fewer foreign-born from southern and eastern European countries resided in the United States.

The quota system remains the basis of American immigration policy, although it has been modified in the post-World War II era. Most significant are the Immigration and Nationality Act Amendments of 1965, which reorient the American system for admitting immigrants in the direction of granting substantial preferential treatment to members of the families of the resident foreign-born population. It is these changes which have aroused the ire of immigrant writers such as Brimelow.

### **Some suggestions for future immigration policy**

What might be done with respect to immigration policy in the future? We will approach that question within the framework of three propositions that we regard as desirable characteristics of any immigration policy. We feel that a successful immigration policy should:

- § Promote economic efficiency;
- § Emphasize the individual choices of immigrants rather than the decisions of government bureaucrats; and
- § Be consistent with domestic tranquility.

As to the first of these criteria, the historic record indicates that immigrant choices of locations in which to settle have been fully consistent with the advancement of economic efficiency in that they promote factor price equalization among regions of the United States. This is particularly true among immigrants to the United States in the post-World War II era. Recent estimates of the elasticity of immigrant settlement with respect to per capita income show values of between four and five (Vedder, Gallaway, and Moore, 2000). Thus, immigrants have shown a systematic tendency to augment the supply of labor in geographic areas that already are high income (and presumably high productivity) sectors of the American economy.

The beauty of this phenomenon is that it in no way conflicts with the principle of immigrant choice. Consequently, the long established tradition in the United States of allowing immigrants to freely select their living location has been efficiency enhancing. However, there may well be an element of conflict with the principle of maintaining domestic tranquility. As noted earlier, migration, including internal movements of the native-born population, is the instrument of change. And change creates winners and losers. Thus, the phenomenon of migration is subject to some sort of cost-benefit analysis. This has led some to advocate the formulation of a national population distribution policy. To a certain extent, this actually was considered in the early 1970s. Pursuant to the Urban Growth and New Community Development Act of 1970, the Committee on National Growth, headed by George Romney, confronted this issue but, sensibly, argued that individual location decisions cannot be dictated (Committee on National growth, 1972). In Congressional hearings on the subject (U. S. Congress, 1972), this finding was viewed widely in a negative fashion. A representative of the American Institute of Planners argued that the report, avoided the

hard questions and ... fails ... in defining a comprehensive policy.<sup>2</sup> Similarly, the testimony from the American Institute of Architects complained that, Athe report calls for a >no policy= policy and this is unacceptable.<sup>3</sup> Also, the sociologist, Philip M. Hauser, faulted the document, Afor failing to face up to the need for ... setting broad national goals.<sup>4</sup> Interestingly, with a reasonable set of assumptions, it can be demonstrated that an Aoptimal@ distribution of population is attained by allowing people to make unmonitored location decisions, even when so-called negative externalities are taken into account (Galloway and Vedder, 1985). Consequently, we argue that any conflicts arising out of unrestricted immigrant choices of living locations are more a matter of perception than reality.

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<sup>2</sup> Testimony of Alain Rabinovitz (U. S. Congress, 1972, 376).

<sup>3</sup> Testimony of Archibald C. Rogers (U. S. Congress, 1972, 487).

<sup>4</sup> Testimony of Philip M. Hauser (U. S. Congress, 1972, 737 and 739).

Nevertheless, the historic record does indicate that as the country approaches a certain critical level of immigration relative to its resident population, the tendency to view immigration as constituting a national crisis or a problem becomes more prevalent. As we have noted already, our historic experience suggests that this level is one percent a year of the resident population. Whether that number is precisely correct is a matter of debate. However, if we accept the existence of some such level, the implication is that some degree of immigration restriction may be needed to preserve domestic tranquility. Any such immigration restriction further implies a need to ration the limited number of spaces in the United States that would be made available to aliens. The question then becomes, How do we ration these openings?

If the answer to that query is to be consistent with the principles of economic efficiency and immigrant choice, we would argue that a viable approach would be to invoke the discipline of the marketplace, i. e., to allow visas to be traded at will in an open market. In his new book, *Heaven's Door* (1999), George Borjas discusses this possibility, at first in a favorable fashion, but, ultimately, in a negative way. He essentially rejects it, largely on moral grounds, in favor of some bureaucratic point system, such as that employed by Canada.

The basic problem of a policy of the Canadian sort is that it is subject to the same criticisms that apply to governmental efforts at conducting industrial policy. Presumably, the bureaucrats who would implement a Canadian style system would attempt to choose the most desirable immigrant, that is, to select what they perceive to be the winners from among the prospective immigrant population. The problem with such an approach is a simple one. From an economic efficiency standpoint, the best that bureaucrats can hope to do is emulate the market outcome. The worst is decisions that are less efficient than the market result.

What the trading of visas in an open market will produce is a flow of immigrants with sufficient resources (that is income, wealth, and skill) to afford a visa or with prospects that are bright enough to induce someone, an employer or a financial institution, to invest in their future in the United States. Such immigrants are likely to present far fewer problems from the standpoint of their being assimilated into the fabric of American society.

### **Some specific proposals**

We close by offering some specifics. A possible scenario is one which is initiated by announcing that, as of some specific date, all existing valid visas may be traded freely, subject to perhaps some constraints on traders with specific health problems or a criminal record including a felony conviction. It would also be announced that the immigration authorities would supply a certain number of new visas each normal working day (Monday through Friday). A suggestion here is five thousand a day. That would produce an annual injection of about one and a quarter million immigrants into the United States, slightly less than one-half of one percent of the current resident population, a figure that is significantly less than what we perceive to be the critical level of immigration from the standpoint of maintaining domestic tranquility.

It is anticipated that markets would arise spontaneously, including, even, a futures market for visas. Equilibrium prices would be established and, in accordance with the Coase theorem, individual visas, including already existing ones, would be allocated to their most efficient use.

### **Other virtues of the system**

There are certain other positive virtues to a system of this type. Fluctuations in the market price of visas would provide an external evaluation of the quality of life in America. Imagine the

evening news reporting, America was up eight-and-a-half today, or, heaven forbid, down. Further, the revenues generated by the sale of new visas could be used to provide each resident of the United States an annual immigration dividend. Suppose an equilibrium price of \$10,000 for a new visa emerges. This would produce about twelve-and-a-half-billion dollars, or about \$45 per head. If this pool of revenue was distributed on a per person basis at the end of the calendar year, a family of four would receive an immigration dividend check of \$180. This would help allay any discontent among the general population that had arisen as the result of the influx of immigrants, contributing to the creation of domestic tranquility.

This would be an intriguing social experiment.

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