Harriet Duleep Thomas Jefferson Program in Public Policy, The College of William and Mary

Subcommittee on Immigration, Citizenship, Refugees, Border Security, and International Law, Committee on the Judiciary, U.S. House of Representatives

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Is Family-Based Immigration Good for the U.S. Economy?

Testimony of Harriet Duleep to the Subcommittee on Immigration, Citizenship, Refugees, Border Security, and International Law, U.S. House of Representatives

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If asked whether a graduating high school senior should get a job and earn money right away, or attend college, most people would answer attend college. Nevertheless, the former rule—rapid assimilation versus long-term growth—dominates discussions of the economic benefits of immigration policies. On the surface, employment-based immigrants appear to be more valuable to the U.S. economy than family-based immigrants because of their relatively high earnings and because their occupational skills respond to the current needs of particular industries. Yet, because of their high propensity to invest in human capital, kinship-based immigrants provide the U.S. economy a highly malleable resource that promotes a vibrant economy in the long run.

A High Propensity of Family-Based Immigrants to Invest in Human Capital

Human capital is the knowledge and training of the labor force. Key determinants of the long run success of any economy are the amount of human capital it possesses and the flexibility of this human capital.

Individuals increase their human capital by pursuing academic and vocational schooling and through on-the-job and off-the-job training. To invest in human capital, individuals must expend time and effort. Whether they pursue additional schooling or training depends on the return they expect from the investment and how much they have to give up to undertake the additional training or schooling—its "opportunity cost." Ceteris paribus, the lower the opportunity cost of human capital investment, the greater the propensity to invest in human capital. The wages one foregoes while pursuing training or schooling are a key component of the opportunity cost of human capital investment.

Employment-based immigrants enter the U.S. to fill specific jobs as expressed by an employer's willingness to participate in a labor certification process. By the very nature of their admission, these immigrants have specific skills that are immediately valued in the U.S. labor market. Their opportunity cost of leaving work or working less to pursue new schooling or training is high. A native-born aerospace engineer well launched into his career or an immigrant with highly transferable skills allowing him to immediately pursue a job in his field, would be reluctant to undertake training in another field. This would be true even if the training facilitated an ultimately better paid line of work because of the lost wages that such training would incur.

The low opportunity cost for a family-based immigrant who could not initially transfer his home-country human capital, paired with the value of this undervalued human capital in producing new human capital, makes pursuing further training an attractive option. Because they face a lower opportunity cost of human capital investment, family-based immigrants should theoretically have a higher propensity to invest in human capital than either U.S. natives or employment-based immigrants.

Greater permanence among immigrants who enter the U.S. via family ties should also increase their propensity to invest in human capital: home is where one's family is. Indeed

permanence is a prerequisite for investing in human capital that is relevant to the U.S. Why invest if the rewards of the investment cannot be reaped?

Empirical evidence supports the theoretical expectation that family-based admissions are associated with a high propensity to invest in human capital. Earnings growth is a sign that human capital investment is taking place. Family-based immigrants have low initial earnings but high earnings growth; occupation-based immigrants have high initial earnings but low earnings growth (Duleep and Regets, 1996a, b; 1992b). Immigrant earnings patterns characterized by low initial earnings and high earnings growth are associated with high rates of schooling, training, and occupational change (Duleep and Regets 1999, 2002, Green 1999, Akresh 2007). Such findings confirm a key characteristic of recent, predominantly family-based immigrants—a high propensity to invest in human capital.

Economic Benefits of the High Propensity of Family-based Immigrants to Invest in Human Capital

The high earnings growth of family-based immigrants should attenuate concerns about their relatively low entry earnings. Moreover, this high propensity to invest in human capital yields benefits to the U.S. economy beyond immigrants' own earnings growth.

The higher incentive of family-based immigrants to invest in human capital pertains not only to U.S.-specific human capital that restores the value of specific source-country human capital (the foreign-born aeronautical engineer who learns English so that he can pursue aeronautical engineering again), but to new human capital investment in general. When demand shifts requiring new skills to be learned, family-based immigrants who initially lacked U.S.-specific skills (as opposed to employment-based immigrants with highly transferable skills) will be more likely to pursue the new opportunities than will natives or immigrants with highly transferable skills.

Thus, compared to U.S. natives and to employment-based immigrants, a benefit of family-based immigrants is a high rate of human capital investment in a broad range of human capital. This gives such immigrants greater ability to adapt to changing skill needs in the economy, adding significant flexibility to the U.S. economy.

In a similar vein, family admissions may foster innovation. In deciding whether to develop a new product or service, potential entrepreneurs examine the costs and returns of pursuing such an activity. A crucial cost of any new venture is training the workforce that will create the new product or service. New businesses (and changes in existing businesses) require people who are willing to acquire new human capital. Immigrants who enter to fill specific jobs, and are paid accordingly, would have less of an incentive to invest in new human capital.

Policies that bring in immigrants lacking immediately transferable skills—such as family-based admission policies—may promote new business formation (or new directions in existing businesses) by providing a labor supply that is both willing and able to invest in new skills. An entrepreneur in an area or time period with such immigrants will have a relative advantage in launching an innovation.

Family Admissions Promote Immigrant Entrepreneurship

Family-based policies, as opposed to policies to fill specific short-run skill needs, nurture informal human capital investment in immigrant communities and immigrant entrepreneurship.

The research of Khandewal (1996), Jiobu (1996), and Kim and Hurh (1996) provides case-study evidence of extended families and close-knit immigrant communities, fostered by kinship ties, supporting immigrant investment activities. Portes and Bach (1985), Waldinger (1986), Bailey (1987), and Gallo and Bailey (1996) document an immigrant sector in various industries characterized by mutually beneficial arrangements in which recent immigrants working as unskilled

laborers at low wages (or even no wages) in immigrant-run businesses are provided training and other forms of support eventually leading to more skilled positions.

The existence of close-knit communities, fostered by kinship-based admissions, facilitates immigrant entrepreneurial activities (Bonacich and Modell, 1980; Kim et al., 1989; Light, 1972). Anecdotal and case-study evidence suggests that immigrant self-employment occurs within small concentrated pockets defined by ethnic identity and business activity. The clustering of entrepreneurial activities by ethnic group, geographic area, and detailed industry suggests that members of close-knit immigrant communities aid entrepreneurial activities. Local survey information indicates that such help comes not only in the form of financial assistance, but perhaps more importantly from the sharing of information (Waldinger, 1989; Kim and Hurh, 1996).

Statistical evidence confirms a strong link between admission criteria and immigrant entrepreneurship. Duleep and Regets (1996a) estimate a positive and highly statistically significant relationship between the propensity of individual immigrants to be self-employed and the percent of their cohort that gained admission through the siblings' admission category. For the two largest immigrant groups, Asians and Hispanics, the positive effect of siblings on immigrant self employment dwarfs the impact of all other variables.

The cohesiveness of immigrant enclaves, fostered by kinship admissions, supports the development of certain types of businesses. Ethnic enclave entrepreneurs will have an advantage in developing businesses where the cost of an employee performing below a certain level would be catastrophic for the firm. This would be true for small firms (the smaller the firm, the greater the share of each employee to the firm's total work force and the more difficult it becomes for other employees to fill in for a delinquent employee), firms characterized by highly interconnected processes (the more interconnected a process is, the more damage a poor employee or contractor can cause), and firms with low profit margins (the lower the profit margin, the more likely that a poor employee could cause the firm to go out of business).

These are in fact the characteristics of immigrant enclave enterprises as depicted in case-study analyses. Enclave enterprises are most likely to be small businesses (Bates, 1996). They have also been documented in businesses that require highly interconnected processes or long lines of transactions. An example is the early 20th-century Japanese immigrants' development of specialty crops on marginal lands (Jiobu, 1996). Enclave hiring is also more likely to occur in businesses with low profit margins (Bates, 1996). Kim and Hurh, (1996) describe Korean immigrants going into low-income minority areas to start businesses in Chicago. Bonacich and Light (1988) describe an extensive presence of Korean-owned businesses, particularly small scale retailing, in low-income Hispanic and African-American communities that is revitalizing deteriorating areas of inner-city Los Angeles. Waldinger (1986) documents extensive firm development and growth among New York City Chinese immigrants in a declining industry sector, garment manufacturing.

This suggests that family-based immigration fosters the development of businesses that would not otherwise exist.

Family Admissions and the Labor Market Effects of Immigration on Natives

The preceding sections suggest three ways that family-based immigrants may either pursue or foster employment opportunities that are distinct from the employment opportunities of U.S. natives. (1) When demand shifts requiring new skills to be learned, immigrants who initially lacked U.S.-specific skills will be more likely to pursue the new opportunities than others. (2) They also encourage new business formation (or new directions in existing businesses) by providing a labor supply that is both willing and able to invest in new skills. (3) Immigrants lacking readily transferable skills and enclaves composed of such immigrants foster the

development of businesses that would not otherwise exist. In these respects, skill dissimilarity is a virtue.

Lindsay Lowell (1996) comments: "Skill [employment]-based immigrants, in part because their admission depends on formal links to U.S. employers..., may enter directly into job competition with U.S. workers.... Conversely, the nature of the jobs that are initially filled by family-based immigrants, precisely because they are not as tightly linked to the primary labor market may mean that family-based immigrants compete less with U.S. workers."

Empirical evidence buttresses Lowell's speculation on the impact on natives' employment of family-based versus employment-based immigration. Sorensen (1996) analyzed how the relative size of different admission-status immigrant groups in each SMSA affected the earnings and employment of native workers. Controlling for standard human-capital characteristics, such as education and years of work experience, Sorensen finds only small effects of immigration on the earnings and employment of natives when she combines all categories. Dividing by admission status, immigrants admitted because of occupational skills (employment-based immigrants) have a small but statistically significant negative effect on the employment opportunities of native-born white males. According to Sorensen, the estimated negative effect "implies that employment-related immigrants have skills that bring them into direct competition with white native males. This suggests that substantially increasing employment-related immigration may have small negative effects on the labor market opportunities [as measured by earnings and employment] of white native males." In contrast, family-preference immigrants have a statistically significant positive effect on the earnings and employment of U.S.-born whites and on the earnings of U.S.-born blacks.

Family-Based versus Employment-Based Immigration

Family visas are also an important complement to high skilled visas and only compete if they are placed under the same arbitrary cap. High skilled immigrants have families too. By making the U.S. a less attractive destination for high-skilled immigrants, efforts to restrict family admissions may yield unintended outcomes.

In a study of the association between admission criteria and the education levels of immigrants, we found positive correlations between immigrant education levels and the percent of immigrants admitted on the basis of occupational skills. We also found positive and significant correlations between immigrants' education levels and the percent of immigrants admitted as siblings (Duleep and Regets, 1996a). Taken literally, these results suggest that increasing admissions on the basis of occupational skills and increasing the admissions of siblings would increase immigrant education levels. A possible explanation for these findings is that immigrants who gain admission on the basis of occupational skills are followed by their siblings. If those who enter on the basis of occupational skills are highly educated, it is likely that their siblings are also highly educated.

On average the educational level of immigrants who enter via occupational skills exceeds that of family-based immigrants. In contrast to admission criteria per se and country of origin that have initial but not long-run effects on immigrant earnings, education confers an earnings advantage that persists over the life cycle of immigrants. Indeed, for adult immigrants younger than 40, the effect of education on earnings is most apparent in the long run. For instance, the initial earnings of the more educated immigrants exceed the earnings of less educated immigrants by 30 percent. Ten years later, the earnings of the more educated are double those of the less educated (Duleep, 2007). Education may also increase the propensity to invest in human capital among immigrants initially lacking transferable skills (Duleep and Regets, 2002).

If we want to increase the education level of entering immigrants, a more effective approach for achieving this, than increasing occupational admissions, would be to give points for

both kinship ties and educational level both of which appear to yield economic benefits for immigrant economic assimilation and a dynamic economy.

In terms of increasing intergenerational educational growth, historically, groups that were permanently attached to the U.S. showed greater intergenerational progress in educational attainment than groups who were less attached. From this perspective, policies that encourage permanent immigration, such as kinship admissions, should be encouraged; policies that inhibit extended families deter the establishment of permanent communities.

Conclusion: Focusing on the Long Term

In contrast to policies that reward specific employment skills or other attributes fostering quick earnings adjustment, the predominant U.S. immigration policy is family unification. Though the initial earnings of family-based immigrants are below those of employment-based immigrants, a compelling array of research suggests that earnings differences that stem from variations in skill transferability dissipate with time in the United States: Duleep and Regets (1992a, b 1994a, b, 1996a, b, c, 1997a, b), Jasso and Rosenzweig (1995) and others provide evidence that as immigrants live, learn, and earn in the U.S., the earnings of comparably educated immigrant men converge regardless of their admission status. Furthermore, family-investment strategies may help offset the low earnings of immigrant men who initially lack skills for which there is a demand in the host-country labor market (Duleep and Sanders, 1993; Beach and Worswick, 1993; Ngo, 1994; Baker and Benjamin, 1994; and Duleep, 1998). Extended families and close-knit immigrant communities nurtured by family admissions aid the adjustment of immigrants who initially lack U.S.-specific skills. Thus, viewed from a life cycle, family, and perhaps community/ethnic-group perspective, initial earnings differences associated with admission status per se may not be of great importance.

Moreover, by looking beyond immigrants' initial earnings and considering their high levels of human capital investment, economic advantages emerge that are associated with family-based immigrants.

Family-based immigrants benefit the U.S. economy by developing areas and businesses that would not otherwise be developed. Immigrants who initially lack transferable skills are more likely to invest in new human capital than are natives or immigrants with skills that readily transfer to the host economy. Family-based admission policies, which bring in immigrants lacking immediately transferable skills, provide an infusion of undervalued human capital that increases the supply of flexible human capital. A flexible labor supply that is willing and able to invest in new skills facilitates innovation and accompanying entrepreneurship. Family-based immigration also fosters the development of immigrant employment that is distinct from native-born employment thereby reducing employment competition with natives. Those who enter via kinship ties are more likely to be permanent and permanence confers a variety of societal goods. For poorly educated immigrants, programs that foster long-term investment in human capital and permanence (as opposed to temporarily filling labor shortages) foster upwardly mobile immigrant communities.

Policy analysts generally think of U.S. immigration policy as serving two separate purposes. The principal goal is to unite families; a secondary goal is to meet labor market needs. Tailoring immigration to labor shortages is theoretically appealing, but difficult in practice. Admission based on kinship is often considered detrimental to the U.S. economy but justified on humanitarian grounds. Yet, precisely because they lack specific skills that are immediately valued by the U.S. labor market, family-based immigrants meet labor market needs in an ongoing, flexible fashion that contributes to a vibrant economy and, at the same time, fosters permanence with its associated benefits. As U.S. policy makers put more emphasis on the economic effects of immigrants, an alternative route would be to focus on long-term goals.

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