

Immigration Reform Is a Painless Way to Reduce the Deficit

By Arlene Holen
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In his post-election acceptance speech, President Obama said "fixing our immigration system" would be one of the first items on his legislative agenda and "we need to seize the moment". But the president and the congress face a more immediate task: backing away from the "fiscal cliff" and coming up with a plan to avoid the \$1.2 trillion in automatic spending cuts scheduled to kick in starting January 1. Easing immigration restrictions for high-skilled workers can help achieve that objective.

The automatic spending cuts, divided between defense and domestic discretionary expenditures, were part of the budget deal agreed to in 2011 to avoid default on the nation's debt. As part of the deal, a supercommittee was to develop a more palatable plan to achieve the same deficit reduction. As everyone knows, the supercommittee was unsuccessful - for an understandable reason. Deficit reduction - cutting expenditures and raising taxes - typically involves pain for some significant constituency. Occasionally, however, one finds a way to reduce the deficit that avoids pain. Letting in more high-skilled immigrants is one such way. Admitting more workers with skills in science, technology, engineering, and mathematics (STEM fields) can make a substantial contribution toward needed deficit reduction without raising taxes or cutting spending, while at the same time boosting growth and productivity.

A study I prepared for the Technology Policy Institute shows that proposals considered by Congress to loosen green card and temporary worker constraints for high-skilled workers would reduce the deficit on the order of \$100 billion over ten years - almost 10 percent of the \$1.2 trillion needed to avoid automatic spending cuts. This result is primarily due to the increased tax revenues from the earnings of new high-skilled workers, even without touching tax rates or deductions because the nation's resource base would be thereby enlarged. Think of the Louisiana Purchase as an example-of expanding the nation's human capital rather than land capital.

My study uses the same modeling and scoring approach used by the Congressional Budget Office (CBO) for comprehensive immigration reform. CBO concluded that increased output and tax revenues would result from the addition of significant labor resources to the economy.

Although President Obama has yet to recommend legislation in this area, he has signaled his strong support: "Today, there are hundreds of thousands of students excelling in our schools who are not American citizens...As soon as they obtain advanced degrees, we send them back home to compete against us. It makes no sense," the president said. Half of all students in mathematics, engineering, and the sciences at U.S. universities are foreign-born. We are effectively exporting valuable human capital resources that were acquired at considerable national expense.

Admitting more high-skilled immigrants has bipartisan support. For example, last spring, the Startup Act 2.0, sponsored by Democratic Senators Mark Warner (VA) and Chris Coons (DE), and Republican Senators Marco Rubio (FL) and Jerry Moran (KS), proposed providing a green card to graduates with a master's degree or a PhD in STEM fields. The proposal would also create a new entrepreneur's visa for immigrants who launch businesses.

Some worry that foreigners would displace American workers and reduce their wages. But most studies find negligible wage effects, particularly when the newcomers hold advanced degrees. Secondary, positive effects on wages also result because immigrants, both as workers and consumers, stimulate the demand for investment capital and encourage domestic workers to invest in more education.

It is rare that such a "win-win" is available - a policy that is good for the economy, and at the same time would make a substantial contribution toward needed deficit reduction without either raising taxes or cutting spending. When one does become available we should grab it.

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