

Contact: Gordon Hanson (858) 822-5087  
gohanson@ucsd.edu

September 29, 2005

## WHY DOES IMMIGRATION DIVIDE AMERICA?

Washington, DC—Immigration generates benefits for the US economy by allowing US capital, technology, and natural resources to be utilized more efficiently. These benefits help explain support for more open immigration policies by US business. However, workers who feel that competition from immigrants reduces their wages often oppose such policies. Hence the politics of immigration resemble the politics of international trade.

However, immigration differs from trade in important ways. Immigrants pay taxes, use public services, and vote; imports do none of these things. Many recent immigrants have little education, causing them to earn low incomes and to make frequent use of Medicaid and other government welfare programs. High levels of illegal immigration exacerbate this problem by reducing the share of immigrants that contribute to US tax revenues. They also expand the population that draws on expensive forms of public services, such as emergency medical care.

In *Why Does Immigration Divide America? Public Finance and Political Opposition to Open Borders*, Gordon H. Hanson assesses the fiscal consequences of immigration, which are reflected in public opinion toward US immigration policy. Joining less-skilled workers in opposing immigration are high-income individuals in states that make large fiscal transfers to immigrants. What makes high-income earners oppose immigration is not being in a high-immigration state per se but being in a

high-immigration state that also provides generous public benefits to immigrants. The political coalition against immigration is thus broader than the political coalition against free trade—it includes low-income workers who fear immigration’s labor-market consequences and high-income workers who fear its fiscal impact.

Current US immigration policy is based on an uncomfortable compromise. US business obtains access to the foreign labor it wants but must accept one-third or more of these workers being illegal immigrants. A high level of illegality exposes US taxpayers to greater costs, creates uncertainty in the supply of foreign labor, and dampens the incentive of immigrants to invest in acquiring skills or bettering their communities. Political divisions about immigration stymie attempts at reform. Business blocks attempts to improve enforcement against illegal immigration; anti-immigration groups block attempts to legalize the 10 million illegal immigrants residing in the country.

US immigration policy should thus strike a compromise between those for and against open borders. To soften opposition to immigration, the United States could reduce its negative fiscal consequences. We should begin to phase in more slowly the rights of immigrants to draw on public assistance and other public benefits. A lower tax bill tied to immigration would make it easier to legalize existing illegal immigrants and expand legal entry visas for foreign workers. Welfare reform in 1996, which delayed the right of immigrants to use many types of public benefits until they had been in the country for five years, is a precedent for this approach.

A rights-based approach to immigration reform could be implemented by making it part of an expanded temporary immigration program, in which new immigrants enter the country on temporary visas with limited rights to draw on public benefits and over time earn the right to apply for permanent legal residence. In the interim, employers would be responsible for financing their health care, unemployment insurance, and retirement benefits. The incentive for employers to pick up the tab for benefits to immigrants (the incidence for which would partly fall on the workers themselves) is that, through an expanded temporary immigration program, they would acquire access to a stable supply of foreign labor. A temporary immigration program with a well-defined path to permanent legal residence would also provide a means of legalizing the existing stock of illegal immigrants in the country.

The growing consensus that US immigration policy is broken creates a political opening to address the issue. Continued inaction would be costly. Among other consequences, it would allow a large and growing segment of the US labor force to remain in a legal grey area, lacking the protections afforded by the law. Creating a strategy to reform immigration policy requires understanding, first, the economic consequences of immigration and, second, how these consequences shape public views on the number of foreigners who should be admitted to the United States.

## About the Author

**Gordon H. Hanson** is a professor of economics in the Graduate School of International Relations and Pacific Studies and the Department of Economics at the University of California, San Diego (UCSD). He is also a research associate at the National Bureau of Economic Research and coeditor of the *Journal of Development Economics*. Before joining UCSD, he served on the faculties of the University of Michigan and the University of Texas. He is the author of over 50 academic research publications on the economic consequences of immigration, international trade and investment, and other aspects of globalization. His most recent book is *Immigration Policy and the Welfare System* (Oxford University Press, 2002).

## About the Institute

The Institute for International Economics, whose director is C. Fred Bergsten, is the only major research center in the United States that is devoted to global economic policy issues. The Institute's staff of about 50 focuses on macroeconomic topics, international money and finance, trade and related social issues, and international investment, and covers all key regions—especially Europe, Asia, and Latin America. The Institute averages one or more publications per month; holds one or more meetings, seminars, or conferences almost every week; and is widely tapped over its popular Web site ([www.iie.com](http://www.iie.com)).

*Why Does Immigration Divide America? Public Finance and Political Opposition to Open Borders*

Gordon H. Hanson

September 2005 • ISBN 0-88132-400-0 • \$19.95