

The Immigrant Gap

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April 1 is a critical day for immigration policy. Today, U.S. Citizenship and Immigration Services (USCIS) begins accepting new H1-B visa petitions for the next fiscal year.

Created in 1990, H1-B visas allow companies to sponsor highly educated foreigners -- architects, doctors, engineers, scientists among them -- to work in the United States for at least three years. The H1-B program, which accounts for nearly all skilled immigrants admitted to work here each year, is capped annually at 65,000 for people with a bachelor's degree or higher, plus an additional 20,000 for those with a master's degree or higher.

Is this enough supply to meet market demand? Not even close. Last year, by the afternoon of the first day petitions were accepted, more than 150,000 had been filed. So USCIS rejected all petitions received after close of business the next day, and then allocated the 85,000 visas via random lottery. USCIS is forecasting a similar crush today for 2009 petitions.

Skilled immigrants have long contributed to rising U.S. standards of living. They bring human capital, brimming with ideas for new technologies and new companies. They bring financial capital as well, with savings and resources to develop these new ideas. And they often bring connections to business opportunities abroad, stimulating exports and affiliate sales for multinational companies.

One of the most innovative and productive sectors of the U.S. economy, which accounts for more than half of the economy-wide productivity acceleration since 1995, is information technology. At the end of the 1990s, 24% of all IT firms in Silicon Valley had been founded by immigrants from China or India.

IT's gain from skilled immigrants has been mirrored throughout the economy. The number of foreign-born workers in the U.S. science and engineering workforce has nearly quintupled since 1980. Increases have been most pronounced among the most educated. The foreign-born share of doctorate-level workers rose to 42% today from 24% in 1990.

Higher education offers another prime example. America built the world's most dynamic university system largely by welcoming foreign scholars. At the Tuck School of Business at Dartmouth, where I am a professor, 36% of tenured and tenure-track professors are foreign born.

Nonetheless, leading U.S. companies today are crying out for more immigrants to satisfy their talent needs. And they do so as globalization gives companies an ever-wider range of locations abroad in which to operate. Increasingly, talent needs that cannot be met in America can be met abroad -- much to the detriment of the U.S. economy. Bill Gates put this clearly in testimony to Congress last month: "many U.S. firms, including Microsoft, have been forced to locate staff in countries that welcome skilled foreign workers to do work that could otherwise have been done in the United States, if it were not for our counterproductive immigration policies."

Alarms are increasingly being sounded about America's waning competitiveness. In particular, American capital markets are losing out to financial centers like London. The independent, bipartisan Committee on Capital Markets Regulation opened its latest report with this line, "By any meaningful measure, the competitiveness of the U.S. public equity market has deteriorated significantly in recent years."

A recent McKinsey report surveyed hundreds of senior finance executives and found that their single most important concern was "availability of professional workers." One executive said, "It is much easier hiring talented people in the U.K. There are plenty of great people and I never have trouble getting them in because of immigration restrictions; I couldn't hire the team I need in the U.S. today."

And why is it easy to hire financial talent in London? Because the U.K. welcomes an unlimited supply of the world's best financial minds. Since 2004, the U.K. Highly Skilled Migrant Programme has maintained a list of the world's top 50 business schools. Anyone who earns an MBA from one of these schools is automatically eligible to work in the U.K. for at least one year.

America is currently facing many economic challenges. In Washington and on the presidential campaign trail, however, we hear very little about immigration. And what we do hear is mainly about issues such as fences and drivers' licenses. This is unfortunate. To maintain high standards of living for Americans, the U.S. economy needs skilled workers. But our immigration policy keeps out many of the world's best, and as a result threatens America's competitiveness. The solution? Eliminate the cap on H1-B visas. What a wonderful April Fool's Day surprise that would be.

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