



## Give Me Your Skilled....

A previous issue of *National Economic Trends* (January 2001) identified the role of immigration in sustaining the rate of U.S. population growth in the face of a declining birth rate. A related issue is whether changes in immigration policy could help the federal government finance the increase in transfer payments—Social Security and Medicare—that will occur when the baby-boom generation retires.

A recent article suggests that immigration policy could be reformed with this goal in mind.<sup>1</sup> Storesletten (2000) considers the differences between immigrants and the native population and their implications for the projected fiscal burden of the retirement of the baby boomers. His findings suggest that a selective immigration policy—one that would increase the inflow of medium- and high-skilled immigrants of working age—would generate additional tax revenue without a commensurate increase in government spending.

For immigration to have such a beneficial impact, policies that influence the characteristics of individual immigrants ought to receive as much attention as policies that determine the number of immigrants admitted. Currently, on average, immigrants are younger than the native-born. According to the March 2000 Current Population Survey (CPS) of the Census Bureau, 79.0 percent of the foreign-born were between the ages of 18 and 64 years, compared with 59.7 percent of the native population. And 43.6 percent of the foreign-born were between the ages of 25 and 44 years, compared with only 28.6 percent of the native population.

The level of skills and education is also more variable across the foreign-born population than it is across the native population. According to the March 2000 CPS, about 22.2 percent of the foreign-born had less than a 9th grade education, compared with 4.7 percent of the native population. The proportions that hold a bachelor's degree or higher education were much more balanced: 25.8 per-

cent among the foreign-born and 25.6 percent among the native population.

Storesletten finds that an increase in the inflow of low-skilled immigrants alone would not be sufficient to maintain balance in future fiscal budgets. Nor is the average skill level of *current* immigrants high enough to maintain a balanced budget in the long run. Storesletten argues, however, that an increase in the relative inflow of medium- and high-skilled immigrants of working age would enable the government to make promised transfer payments without resorting to tax increases or spending cuts.

Under current immigration policy, it is not clear whether the average skill level of immigrants has been trending up or down. Studies of the Census and CPS data suggest that the average skill level of new immigrants has been declining since the 1980s relative to the native population. An opposing study, however, disputes this finding—at least with respect to legal immigrants—using data from the Immigration and Naturalization Service.<sup>2</sup> It is clear, however, that current immigration policy does not explicitly aim to achieve a high average skill level among new immigrants.

Designing a selective immigration policy would undoubtedly prove difficult, as many past immigrants count on being able to sponsor family members immigrating to this country, regardless of their skill level. Nevertheless, the United States could follow Canada and Australia in implementing a preference system for potential immigrants that would give some weight to family ties as well as skills. As the political process addresses immigration issues, it is worth considering the potential economic impact of switching from the current, rather passive, system to a skill-based, strategic immigration policy.

—Rubén Hernández-Murillo

<sup>1</sup>Storesletten, Kjetil. "Sustaining Fiscal Policy Through Immigration," *Journal of Political Economy*, Vol. 108 (2), April 2000, pp. 300-23.

<sup>2</sup>Jasso, Guillermina, Mark R. Rosenzweig and James P. Smith. "The Changing Skill of New Immigrants to the United States: Recent Trends and Their Determinants," NBER Working Paper No. 6764, October 1998.

