Insight

An Unintended Consequence of Limiting High-Skilled Immigration to the U.S.

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Executive Summary

- The H-1B visa program allows U.S. companies to temporarily employ foreign workers in occupations that are considered high-skill.
- Restrictions on the high-skilled immigration to the U.S. have increased significantly during the Trump Administration.
- A recent study found that restricting H-1B visa holders has a direct correlation to U.S. multinational firms choosing to hire cheaper foreign labor for their offshore affiliates.
- Limiting H-1B visas may help U.S. workers in the short run but indirectly yet broadly impacts the U.S. economy in a negative way.

Introduction

On June 22, 2020, the Trump Administration decided to freeze the distribution of H-1B visas until the end of the year due to the pandemic and the unemployment rate. H-1B visas allow companies to hire high-skilled foreign workers temporarily, but a result is more competition for domestic workers. Foreign talent has historically contributed to the growth and innovation of U.S. multinational companies and the economy, but increasing restrictions placed on legal immigration programs by the Trump Administration has led U.S. multinational firms simply to hire foreign labor outside the United States, according to a recent study. When U.S. firms do this, the restrictive migrations policies set by the Trump Administration are unlikely to have the desired effects of increasing high-skilled, native-born employment and earnings.

History and Current State of H-1B Visa Program

The H-1B program allows companies in the United States to temporarily employ foreign workers in occupations that require the theoretical and practical application of a body of highly specialized knowledge and a bachelor's degree or higher in the specific specialty. The program was created under the Immigration Act of 1990 to help U.S. firms deal with labor shortage in rapidly growing fields. H-1B specialty occupations are often in fields such as science, engineering, and information technology, as well as teaching and accounting. The applications, or petitions, are submitted by a U.S. company that sponsors the candidate it seeks to employ, confirming that foreign workers will be paid the prevailing wage for their positions and their working conditions will be similar to other employees.

The H-1B visa program is a popular option for foreign workers to enter the United States legally. In fact, the demand for H-1B workers consistently exceeds the supply of visas. The annual statutory cap for the H-1B visas program is 65,000 visas, with 20,000 additional visas for foreign professionals who graduate with a master's

degree or doctorate from a U.S. institution of higher learning. The H-1B visa program can be called a "lottery system" because U.S. Citizenship and Immigration Services uses a computer-generated random selection process to determine which 85,000 applicants from the petition pool are chosen to receive a visa. This year, 201,011 H-1B petitions were filed within the five-day processing period.

In 2017, President Trump signed the Buy American, Hire American Executive Order which seeks to strengthen a long-standing government procurement preference for American-made goods and calls for reforms to employment-based immigration. As a result of the administration's policies, there has been a struggle for foreign workers to receive H-1B visas. Department of Homeland Security data shows the denial rate for H-1B visa petitions increased from 7 percent in 2017 to 15 percent in 2018. President Trump's order limits high-skill immigration as a way to support U.S. workers by influencing wages and employment for them in the short-run. The administration's most recent move came on June 22, 2020, when it decided to freeze the distribution of H-1B visas until the end of the year due to the pandemic and the unemployment rate.

The Effects of Restricting H-1B Visas

The restrictions placed on high-skilled immigration to the United States, given the demand for visas, could have both negative and positive implications. By limiting the H-1B visa program, the administration is restricting the pool of labor, driving up wages for American workers. On the contrary, in limiting H-1B workers, the administration is forgoing plenty of economic benefits. For example, one study shows that adding 100 H-1B workers to the economy produces 183 jobs for U.S. native, while another study shows growth in H-1B computer scientists led to production of more IT products in the United States, the creation of new IT firms, and lower prices for consumers. For more on the impacts of the H-1B visa program, see this AAF insight.

Along with forgoing innovation and growth, one important yet unmentioned consequence of restricting the H-1B visa program is the offshoring of labor at U.S. multinational firms, as mentioned in the National Bureau of Economic Research's study "How Do Restrictions on High-Skilled Immigration Affect Offshoring?" by Britta Glennon. According to the study, there is a direct relationship between increasing restrictions of high-skilled immigration programs, specifically the H-1B, and U.S. multinational firms hiring foreign workers offshore rather than filling the roles in the United States. When U.S. firms choose to hire foreign labor offshore, the U.S. economy sees a smaller labor force. Therefore, there would also be a decrease in the supply of labor and consequently a shrink in gross domestic product. Not only would limiting H-1B visas shrink the U.S. economy, but multinational firms would choose to employ foreign labor in foreign markets. Limiting visas thus would be adding jobs to the economies of countries such as Canada, India, and China. Rather than creating and protecting American jobs and growing the U.S. economy, the Trump Administration may be sending the jobs, innovation, foreign investment and economic growth to other countries. This trend will only amplify with the increasing denial rate in petitions under the current administration.