Breaking Down the H-1B Visa Program

JACQUELINE VARAS | MAY 3, 2017

President Trump recently signed an executive order promoting "Buy American and Hire American" policies. It has two main parts: the first seeks to strengthen a long-standing government procurement preference for American-made goods, and the second calls for reforms to employment-based immigration. While the order does not create any substantive policy changes, it does commission a review of the H-1B visa program to "protect the interests of United States workers."

H-1B is a special class of temporary visa awarded to high-skilled foreign workers that allows qualified individuals to work in the United States for three to six years. It is especially utilized by the information technology industry and companies in Science, Technology, Engineering and Math (STEM) to bring foreign talent to the United States. Top U.S. sponsors of H-1B workers include IBM, Microsoft, and Google.

Each year, 65,000 H-1B visas are awarded to foreign workers with at least a bachelor's degree. An additional 20,000 are allocated to noncitizens with advanced degrees from U.S. universities. To hire employees through the H-1B program, companies with operations in the United States must file petitions confirming that foreign workers will be paid the prevailing wage for their positions and their working conditions will be similar to other employees. They must also pay up to $6,500 per worker in filing fees. H-1B workers must then remain employed at the companies which sponsored them for the duration of their visas or their lawful status will be terminated.

U.S. demand for H-1B workers has consistently exceeded the supply of visas since the cap was lowered from 195,000 in 2004. This year, 199,000 H-1B petitions were filed within the five-day processing period. U.S. Citizenship and Immigration Services (USCIS) uses a computer-generated random selection process to determine which 85,000 applicants from that pool will receive H-1B visas.

The economic impact of the H-1B program has been studied extensively. The American Enterprise Institute and Partnership for a New American Economy found that H-1B workers increase productivity in the United States and generate economic activity. This increases demand and results in additional job creation: adding 100 H-1B workers was found to produce 183 new jobs for U.S. natives. A similar study found that increasing the H-1B visa cap by 10,000 would create 227,000 jobs, increase disposable income by more than $115 billion, and boost GDP by $159 billion.

Other studies have produced slightly different results. A report earlier this year from the National Bureau of Economic Research found that growth in H-1B computer scientists between 1994 and 2001 led to the production of more IT products in the United States, the creation of new IT firms, and lower prices for consumers. The researchers also found that the employment and wages of U.S. computer science workers would have been higher in the absence of high-skilled immigration. However, the U.S. labor market is dynamic and constantly evolving; labor market shifts following the spike in high-skilled immigration increased the productivity and raised the wages of non-computer science workers.

The benefits of H-1B workers are obvious: they fuel innovation, boost economic growth, and fill STEM worker shortages in the United States. However, concerns about H-1B abuses are prevalent. A common criticism is that the H-1B program allows companies to hire relatively cheap foreign labor instead of qualified, higher priced U.S. workers. While there is a "prevailing wage" requirement, some assert that businesses evade it by hiring overqualified foreign workers for entry level positions.

Another criticism involves the type of companies that sponsor H-1B visas. The majority of H-1B visa petitions come from Indian IT firms which send contract workers to technology companies in the United States. These outsourcing firms are a target for critics who assert that standard IT workers from India are not special talent, but are simply lower-paid software engineers sent to replace American workers.

Several proposals have been made to address these concerns. Rep. Zoe Lofgren (D-CA) recently introduced a bill that would give priority to companies willing to pay twice the prevailing wage to their H-1B workers. It would also allocate 20 percent of H-1B visas to startups in an effort to combat the dominance of Indian outsourcing companies. Another proposal was put forward by the president, who suggests replacing the current H-1B lottery system with one that favors workers holding more advanced degrees and necessitating higher wages.

These reforms may seem appropriate. However, increasing wage or education requirements will disproportionately harm smaller companies with limited resources. It may also not prevent companies in the United States from hiring overqualified foreign workers at lower wages. Furthermore, many H-1B visas are granted to foreign students after graduation; curbing their access to U.S. employment would disincentive them from studying in the United States and likely decrease foreign enrollment rates.

Enhancing labor mobility may be a more effective reform. If H-1B workers were readily allowed to move between employers, they would be less likely to remain at companies providing below-market wages. It would also introduce competition among employers seeking foreign workers, which may lead to better working environments.

High-skilled immigration is an asset to the United States. While the H-1B program is not perfect, the value of foreign workers is significant: immigrants founded more than half of all startups valued at $1 billion or more and 40 percent of Fortune 500 companies were founded by first or second generation immigrants. Any reforms made to the H-1B program should encourage foreign workers to continue spurring innovation and economic growth in the United States.