

## Finding Gold in the Melting Pot

Reviewed by Ronald Bird

HEAVEN'S DOOR: Immigration Policy and the American Economy

by George J. Borjas

263 pp. Princeton, N.J.: Princeton University Press, 1999

**A**MERICA'S LONG ECONOMIC expansion is running into a serious labor shortage, especially in the field of information technology. The evidence for a tight labor market is compelling: unemployment is at a historic low, the labor force participation rate is at an all-time high, and 25-year old web site designers in Silicon Valley are getting signing bonuses worthy of major league ball players. Conditions are ripe for revisiting U.S. immigration policy as a way to alleviate the shortage of critical information technology skills. Thus, George Borjas's excellent treatise, *Heaven's Door: Immigration Policy and the American Economy*, is both timely and insightful.

*Heaven's Door* is more than just another book about immigration policy; it reshapes the debate about the subject. It cuts through accumulated misconceptions to present the fundamental facts and critical policy questions that must be faced in order to craft a rational immigration policy for the future. It offers a technical analysis of historical data as well as policy prescriptions.

Regardless of the merits of Borjas's policy proposals, there is great value in his technical analysis. He sheds new light on the relationship between economic

and cultural assimilation, on the value of English language skills, on the effects of geographic concentrations of immigrant populations, and on the effects of immigration on U.S. labor markets.

### ARE ETHNIC ENCLAVES DESIRABLE?

THIS EXCEPTIONAL BOOK IS NOT unflawed, however. Because Borjas presents such a wealth of data to address a variety of practical questions, the reader must resist beguilement by the sheer volume of evidence. On close examination, some of his key conclusions are technically questionable.

Consider, for example, Borjas's analysis of the effect of ethnic enclaves on economic assimilation. He argues that enclaves are undesirable because they retard the rate and ultimate degree of economic assimilation of immigrants. He writes:

The ethnic enclave's warm embrace becomes an economic stranglehold. Unless this vicious cycle is broken, the immigrant population could easily end up in an impoverished ethnic enclave throughout the immigrants' working lives—unwilling and unable to escape and assimilate into the larger economy. (p. 57)

Borjas supports this strong conclusion with a regression analysis that shows a negative correlation between wage rate growth during the first decade after entry and a measure of residential segregation. But the scatter plot of values around his regression line shows

that the negative relationship between wage growth and residential segregation is weak and disproportionately influenced by a few extreme observations. It seems likely that applying a robustness adjustment technique (e.g., removing the highest and lowest 5 percent of the observations) would reverse his finding.

Borjas's conclusion about enclaves is further weakened when one reads in the fine print that the "measure of residential segregation" he used was a Herfindahl index calculated at the state level. Such data, however, do not necessarily reflect the concentration of immigrant populations within cities. It would be better to address the effect of enclaves on economic assimilation by relating place of work (inside or outside an enclave) to wage growth, rather than relating place of residence to wage growth.

Finally, in a critical omission, Borjas neglects to include initial wage at entry as a control variable in his regression equation. But if employment within an enclave pays better at entry than employment outside the enclave, those in the enclave may be better off economically, even if their subsequent earnings growth is somewhat slower than it would be outside the enclave.

### CURRENT POLICY ENCOURAGES LOW-SKILLED LABOR

BORJAS ASKS, UNAPOLOGETICALLY, WHAT immigration policy will maximize the economic welfare of the native population. He emphasizes that any immigration policy carries costs and benefits, and that policies differ in the ways in which they distribute those costs and benefits among the native population (i.e., whoever is already here) and among the immigrants themselves. That approach fosters clear and logical thinking about an issue that is easily obscured by emotion.

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Current U.S. immigration policy, which is driven by the objective of unifying families, favors relatives of naturalized citizens and resident aliens. Thus, current policy works mainly to the benefit of recent immigrants (those most likely to have close relatives abroad) and imposes costs on the native population generally.

Borjas argues that current immigration policy has contributed to a decline in the skills brought to the labor force by immigrants, has led to a widening disparity between earnings of immigrants and native workers, and may lead to adverse changes in the socioeconomic structure of the nation. He further argues that current policy forgoes the opportunity to increase productivity through strategic selection of immigrants, and that by increasing the supply of low-skilled labor it probably has led to lower wages among the poorest segments of the native population. As an alternative to current immigration policy, Borjas proposes selection criteria that emphasize immigrants' skills, especially those skills associated with higher levels of educational attainment and high earning potential.

#### OPTIMAL POLICY WOULD FILL GAPS

THE CORRECT POLICY IMPLICATION OF Borjas's theoretical insight is subtler than the policy he proposes, however. An optimal immigration policy would select immigrants to complement the gaps and shortages of specific skills in the domestic labor force. The resulting mix might include, for example, some highly educated workers, who are capable of performing high-value-added tasks, and some less-educated workers, to fill jobs that native workers are unwilling or unable to perform. Strategic labor shortages might best be identified by the rate of change in wages rather than by their absolute level.

Borjas gets it half right: we would probably benefit more, economically, if we were to select immigrants who have more education and earning potential than the immigrants accepted under current policy. But we would benefit even more if we were to select immigrants whose skills complement those

of the native population.

Borjas does not offer much insight as to how to implement a policy that emphasizes complementary immigrant skills. His description of point systems used in Canada and elsewhere is of little value because such systems rely on immigration officials' judgments about the weighting of various skills and educational attainments; they lack a pricing mechanism to guide allocation decisions. In reality Borjas does not propose an economic solution but a political solution clothed in economic data.

#### A FUNDAMENTAL RESOURCE

PUTTING ASIDE THE ISSUE OF HOW TO implement an economically rational immigration policy, *Heaven's Door* car-

ries the right message about current immigration policy: it fails to consider, let alone serve, the economic welfare of the native population, which is a valid strategic objective of immigration policy.

Immigration policy is not purely a matter of economics; it also has political, ethical, and social dimensions. But the economic dimension is important, and by overlooking it, a policy can also fail politically, ethically, and socially.

Borjas's work establishes an essential foundation for research and understanding of the economic implications of immigration policy. Despite its flaws, *Heaven's Door* is, and is likely to remain, a fundamental resource for anyone interested in the serious study or formulation of immigration policy. ■

## Making Sense of Electricity Deregulation

Reviewed by Peter VanDoren

**POWER LOSS: The Origins of Deregulation and Restructuring in the American Electric Utility System**

by Richard F. Hirsh

406 pp. Cambridge, Mass.: MIT Press, 1999

**UNLOCKING THE BENEFITS OF RESTRUCTURING: A Blueprint for Transmission**

by Shimon Awerbuch, Leonard Hyman, and Andrew Vesey

286 pp. Vienna, Va.: Public Utilities Reports Incorporated, 1999

**DESIGNING COMPETITIVE ELECTRICITY MARKETS**

Hung-po Chao and Hillard Huntington, editors

212 pp. Boston, Mass.: Kluwer Academic Publishers, 1998

**B**THE EARLY 1990'S, REGULATION of electricity in the United States had yielded wide state-to-state variations in retail electricity prices. Even though the regulation of electricity failed to protect consumers from high electricity costs, no one proposed eliminating regulation. Instead, the policy response has been to restructure electricity markets

through mandatory open access, under which an electricity producer has the right to sell electricity to whomever it chooses, using the wires of an incumbent utility.

Although mandatory open access has fostered competition among generators of electricity, the transmission and distribution (T&D) of electricity remain regulated. The time-dependent prices that are available in the wholesale interstate market are not reflected in the rates paid by retail consumers.

#### PROBLEMS WITH PARTIAL DEREGULATION

Partial deregulation through mandatory open access has been accompanied by some predictable problems:

- Generators set prices above marginal cost.
- Transmission constraints limit the ability of distant generators to compete

Peter VanDoren is the editor of *Regulation* and the author of *The Deregulation of the Electricity Industry: A Primer* (Cato Policy Analysis 320 October 6, 1998). He thanks Robert Michaels for his comments on a draft of this review.