

THE INCREASING  
COST TO AMERICAN  
COMPANIES OF  
HIRING SKILLED

# IMMIGRANT WORKERS

PROFESSOR MATTHEW J. SLAUGHTER  
MARCH 30, 2016



ABOUT THE

# AUTHOR

## **PROFESSOR MATTHEW J. SLAUGHTER** **Head, ACalliance Academic Advisory Board**

Matthew J. Slaughter is the Paul Danos Dean of the Tuck School and the Earl C. Daum 1924 Professor of International Business. He is also the founding Faculty Director of the Center for Global Business and Government. In addition, he is currently a Research Associate at the National Bureau of Economic Research; an adjunct Senior Fellow at the Council on Foreign Relations; a member of the advisory committee of the Export-Import Bank of the United States, a member of the academic advisory board of the International Tax Policy Forum; and an academic advisor to the McKinsey Global Institute.

From 2005 to 2007, Dean Slaughter served as a Member on the Council of Economic Advisers in the Executive Office of the President. In this Senate-confirmed position he held the international portfolio, advising the President, the Cabinet, and many others on issues including international trade and investment, currency and energy markets, and the competitiveness of the U.S. economy. He has also been affiliated with organizations including the Federal Reserve Board, the International Monetary Fund, the World Bank, the Congressional Budget Office, and the National Academy of Sciences.

# EXECUTIVE SUMMARY

## U.S. POLICY SHOULD AIM TO REDUCE, NOT INCREASE, THE COST OF HIRING SKILLED IMMIGRANT WORKERS

This white paper examines the economic principles, empirical evidence, and public policies regarding the cost to companies in America of hiring skilled immigrant workers. The key message is that the total cost of hiring a skilled immigrant through a visa program such as the H-1B typically exceeds by thousands of dollars the cost of hiring a comparably skilled native-born worker.

America has long needed skilled workers—be they skilled immigrants or native-born Americans—to drive the innovation at the foundation of growth in output, jobs, incomes, and opportunity. In recent years many companies, scholars, and policy makers have voiced growing concern that America increasingly faces an insufficient supply of talented workers necessary to create and drive the new possibilities of information technology and other frontiers.<sup>1</sup>

Labor-market competition and U.S. laws and regulations compel companies to pay comparable wages to comparably talented workers. But companies hiring skilled immigrants must also incur thousands of additional dollars in costs to the government to file for and implement immigration visas. Indeed, a new ACAAlliance survey finds that 82% of American companies report that the cost of hiring a foreign worker is equal to or greater than the cost of hiring a U.S. worker.

These higher foreign-worker costs burden companies, not just financially but also in terms of time and effort—all of which erodes America's for innovation. And these costs are rising. In December 2015, a new U.S. law levied a new \$4,000 fee on future H-1B (\$4,500 for L-1) applications for firms of at least 50 employees that have at least 50% of their employees on an H-1B or L-1 visa. In this ACAAlliance survey, 75% of companies say the overall H-1B program costs are too high.

The impact of not being able to hire talented workers is, for individual companies and for America overall, bad. Unmet talent needs means unmade innovations, uncreated new jobs, unpaid new wages, unventured new investments, unpaid new taxes, and an overall dimmer future. In the ACAAlliance survey, fully 77% of companies report that skilled positions unfilled for more than 30 days harms their operations—and 71% thus say that if it became too difficult to find qualified talent in America, they would consider relocating. To support U.S. innovation, changes in U.S. policy should aim to reduce, not increase, the cost of hiring skilled immigrant workers.

**U.S. POLICY SHOULD AIM TO REDUCE, NOT INCREASE, THE COST OF HIRING SKILLED IMMIGRANT WORKERS.**

SKILLED

# IMMIGRANTS

## **SKILLED IMMIGRANT WORKERS EARN WAGES COMPARABLE TO SKILLED NATIVE-BORN WORKERS**

Why do immigrant and native workers earn about the same amount in the United States? In a narrow sense, it is because the U.S. labor market efficiently allows similarly talented workers to command similar incomes. In a broader sense, comparable U.S.-born and immigrant earnings in the same occupations reflect the global competitive intensity that today faces U.S. companies.

Talent is critical for a number of U.S. industries to thrive in a world whose innovative activities are both more contested and more mobile. The notion that the United States has a perpetual lock on high-profit, ever-expanding innovation is gone. Even if the United States can maintain its innovation dynamism, it will do so amidst greater competition among companies and thus, indirectly, among the talented workers so essential for the success of these companies.

Under current law, a company hiring an H-1B colleague must pay him or her the higher of two possible wages: (1) the actual market wage paid to “all other individuals with similar experience and qualifications for the specific employment in question,” as determined by private surveys; or (2) the so-called “prevailing” wage, determined administratively by the U.S. government.<sup>2</sup>

Several studies of existing U.S. law and practice have concluded that H-1B professionals are paid at least the same, if not more, than their native-born U.S. counterparts with observationally similar characteristics such as experience. For example, a 2011 study by the U.S. Government Accountability Office documented several cases across America of approximately equal median annual salaries between H-1B workers and their U.S.-born counterparts.<sup>3</sup> Multiple recent studies found that H-1B visa holders earn more than comparable native-born workers even when controlling for factors such as educational attainment, occupation, industry, and work experience. One such study found that in 2010, H-1B workers earned an annual average of \$76,356—13.4% more than the \$67,301 average of their native-born counterparts.<sup>4</sup> Another study surveyed more than 50,000 IT professionals over the period 2000-2005 and found that foreign workers on an H-1B or other visa earned a salary premium of several percent.<sup>5</sup>

More generally, looking at all of the approximately five million people working in STEM occupations in the United States today, another recent study found no evidence that immigrants are paid less than U.S.-born citizens. Using the most comprehensive data available and a number of alternative approaches to controlling for the differences in earnings across workers (such as age, gender, education, industry of employment, and specialized occupation), no consistent statistical difference was found between the earnings of U.S.-born workers and immigrant workers.<sup>6</sup>

Not only are incomes equally high among native-born and immigrant STEM workers at a point in time, but over time immigrant STEM workers help boost the incomes of all native-born workers as well via higher productivity. A recent study of 219 U.S. metropolitan areas from 1990 to 2010 found that growth of immigrant STEM workers by one percentage point of a metro area's total employment boosted the wages of its native-born college graduates by 7 to 8 percentage points—and of its native-born non-college-educated workers by 3 to 4 percentage points. More skilled immigrants tend to boost wages of all native-born Americans.<sup>7</sup> STEM-educated workers have long strengthened America in all occupations, not just STEM occupations. They drive performance in many key sectors such as medicine and infrastructure.

**IMMIGRANT STEM WORKERS  
HELP BOOST THE INCOMES  
OF ALL NATIVE-BORN  
WORKERS**

The channel by which talented immigrants boost American wages is innovation and productivity growth. Indeed, this recent study estimated that U.S. inflows of skilled immigrants accounted for somewhere between 30% and fully 50% of U.S.-wide growth in productivity over this 1990-2010 period. In addition to this remarkable contribution of skilled immigrants to U.S. productivity, it is especially notable that the middle decade of this 1990-2010 period included the first IT revolution and all its gains to U.S. jobs and incomes that scholars have noted.

Talented immigrant workers do not crowd out American talent. Rather, they keep America's innovation outlook from sagging even more than in some ways it already has. In so doing, they help boost the incomes of all workers in America. This boost comes not just from creating ideas and output in the companies at which they work. Immigrants support communities and the overall economy in many other ways: paying income and Social Security taxes; buying and renting homes, cars, and other goods and services; eating out at restaurants; and so on and so forth.

Do immigrants sometimes compete with natives for the high-quality, high-opportunity jobs in America? Yes. But it is precisely through that competition that innovation is spurred, in large part because talented workers tend to complement each other inside and across firms, and thus average incomes are ultimately raised for all.

## COMPANIES INCUR THOUSANDS IN ADDITIONAL COSTS FOR SKILLED IMMIGRANT WORKERS

Beyond the market wage that a company in America must pay in wages to a skilled immigrant worker, that company must also pay thousands of additional dollars in costs to the government to file for and properly implement the immigration visa linked to this colleague.

Under current law, a company filing with U.S. government for an H-1B or an L-1 visa must pay fees (e.g., border-security fee) that together total thousands of dollars. These fees include the following: a base filing fee of \$325; an anti-fraud fee of \$500; an education and training fee of \$750 for employers of fewer than 25 workers or \$1,500 for employers of more than 25 workers; and, if premium processing is desired, an additional fee of \$1,225. The company must also pay human-resources and/or legal counsel—be it internal or external—for all the application preparation, a cost that typically runs thousands of dollars.

Over time, all these costs have been rising—in part because of changes in U.S. policy. In December 2015, a new U.S. law levied an additional \$4,000 fee on future H-1B (\$4,500 for L-1) applications for firms of at least 50 employees that have at least 50% of their employees on an H-1B or L-1 visa. For many companies this change in U.S. law constituted a 100% increase in this specific fee alone, as it had been just \$2,000 in earlier years.

Beyond what is typically thousands of dollars in visa-application fees, a company that succeeds in hiring a skilled immigrant worker must also incur large processing and compliance costs—e.g., to document that that worker is being paid the appropriate wage. In addition, many H-1B immigrants aspire to acquire a green card. Because of the tight labor-market competition cited above, hiring companies often end up paying these application costs as well.

For the typical company hiring a skilled immigrant, the total costs of visa filing and compliance are very large—“thousands of dollars each year,” according to the 2011 GAO report cited above. “For example, one company official estimated the combined costs of the H-1B and green-card process to be about \$16,000 over the duration of the process.”

These substantial costs for hiring skilled immigrant workers matter for even the largest global multinational company. For smaller and younger companies, these costs often constitute a much larger share of available resources and thus constitute a much larger burden to overcome. At a time where the U.S. economy overall continues to suffer from a decades-long decline in new-business formation, this burden on young start-ups is especially unwelcome.

**THIS BURDEN ON YOUNG  
START-UPS IS ESPECIALLY  
UNWELCOME.**

And for these start-up companies, the magnitude of these costs is compounded by both their unfamiliarity and their potential to dramatically constrain or even kill the viability of the overall business. A multi-billion-dollar multinational company will not go under for want of one or two key colleagues. But a fledgling start-up just might. On this important point, here is an extended excerpt from the GAO report.

“Venture capital and law firm representatives reported that start-ups, in particular, often have less time and fewer resources for navigating the immigration system, and the impact of employee immigration problems on them can be substantial. Some founders of start-ups and venture capital firms with whom we spoke reported that the skills required by small firms and emerging companies in high-tech sectors are often extremely specialized, and sometimes these firms cannot readily find a ‘second-choice’ employee in the U.S. labor market ... Two lawyers we spoke with ... described cases in which entrepreneurs attempting to establish very early-stage technology start-ups were unable to obtain H-1B or other work visas for themselves and either relocated the project abroad or had to abandon the start-up.”

The clear bottom line is that companies large and small, established and new, must incur substantial costs to employ a skilled immigrant worker—above and beyond the market wage that these companies are required to pay these workers. A new ACAAlliance survey underscores how pervasive of a challenge these immigration costs are for American business. Fully 82% of companies report that the cost of hiring a foreign worker is equal to or greater than the cost of hiring a U.S. worker. And 75% of respondents say the costs associated with sponsoring and complying with the H-1B program are too high for most American businesses.

**THE COSTS ASSOCIATED WITH SPONSORING AND COMPLYING WITH THE H-1B PROGRAM ARE TOO HIGH FOR MOST AMERICAN BUSINESSES.**

Beyond these high and rising out-of-pocket costs that American companies must pay to hire skilled foreign nationals, the final cost to consider is the opportunity cost of all this time and effort. Time, attention, and money not spent on the vagaries of U.S. immigration policy companies would be able to redirect to building stronger business fundamentals—to additional innovation, to greater capital investment, and even to paying higher wages.

Keep in mind that part of this opportunity cost is the uncertainty of whether all the time, effort, and expenses in petitioning for a new immigrant visa will prove successful. In many recent years, demand for H-1B visas has far exceeded supply. In 2015 approximately 233,000 applications were received within just five working days from the April 1 opening of the filing period, after which no more petitions were accepted for the fiscal year 2016 quota of just 85,000 new visas (65,000 for people with at least a bachelor’s degree and 20,000 for people with at least a U.S. master’s degree). Those visas were then allocated via a random lottery. Many companies must spend additional resources planning for and, in most cases, executing a plan for what to do when losing in the visa lottery. This uncertainty is an additional cost that inhibits risk-taking and focus.

## CONCLUSIONS

Companies that cannot hire talented immigrants in America often don't hire anyone at all. Or these companies may hire overseas. In the new ACAAlliance survey, fully 71% say that if it became too difficult to find qualified talent in America, they would consider relocating.

COMPANIES THAT CANNOT  
HIRE TALENTED IMMIGRANTS  
IN AMERICA OFTEN DON'T  
HIRE ANYONE AT ALL. OR  
THESE COMPANIES MAY HIRE  
OVERSEAS.

There is a real, tangible cost to the U.S. economy of allocating fewer skilled-immigrant visas than companies need. Most immediately, the cost is foregone jobs created in these companies and in the overall U.S. economy. More broadly, the cost is foregone ideas, investments, and connections to the world that are what ultimately drive growth in jobs, incomes, and opportunity for all.

## ENDNOTES

- 1 For example, here is what McKinsey Global Institute concluded about the threat that too little IT talent presents to realizing the gains from big data. "Companies and other organizations and policy makers need to address considerable challenges if they are to capture the full potential of big data. A shortage of the analytical and managerial talent necessary to make the most of big data is a significant and pressing challenge and one that companies and policy makers can begin to address in the near term. The United States alone faces a shortage of 140,000 to 190,000 people with deep analytical skills as well as 1.5 million managers and analysts to analyze big data and make decisions." This conclusion is stark: at a time when IT services may be on the cusp of ushering in much needed productivity gains for American workers and their families, America may fail to fully realize these gains because of too few knowledge workers. See McKinsey Global Institute, *Disruptive Technologies: Advances that Will Transform Life, Business, and the Global Economy*, 2013 white paper.
- 2 The Immigration and Nationality Act, Section 212(n)(1).
- 3 H-1B Visa Program: Reforms Are Needed to Minimize the Risks and Costs of Current Program, January 2011, U.S. Government Accountability Office. For example, in 2008 the median earnings of all H-1B professionals aged 20-29 was \$60,000—versus \$58,000 for U.S.-born professionals in the same age range.
- 4 H-1B Visas and the STEM Shortage, by Jonathan Rothwell and Neil G. Ruiz, May 2013, Brookings Institution white paper.
- 5 "Are Foreign IT Workers Cheaper? U.S. Visa Policies and Compensation of Information Technology Professionals," by S. Mithas and H.C. Lucas, 2010, *Management Science* (56:5).
- 6 Talent, Immigration, and U.S. Economic Competitiveness, by Gordon H. Hanson and Matthew J. Slaughter, 2013 white paper.
- 7 "STEM Workers, H-1B Visas, and Productivity in U.S. Cities," by Giovanni Peri, Kevin Shih, and Chad Sparber, *Journal of Labor Economics*, (33:3) Part 2, July 2015, Pages S225-S255.

ACALLIANCE.ORG

