Give me your Engineers, your Ph.D.s, yearning to fund my Welfare State. Fiscal Crises and High-skilled immigration Policies

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Give me your Engineers, your Ph.D.s, yearning to fund my Welfare State.
Fiscal Crises and High-Skilled Immigration Policies

by

Mariana Medina Garciadiego

A dissertation presented to the Graduate School of Arts and Sciences of Washington University in partial fulfillment of the requirements for the degree of Doctor of Philosophy

December 2010
St. Louis, Missouri
ABSTRACT OF THE DISSERTATION

Give me your Engineers, your Ph.D.s, yearning to fund my Welfare State.

by

Mariana Medina

Doctor of Philosophy in Political Science

Washington University in St. Louis, 2010

Nathan Jensen and Andrew Sobel, Chairs

Points systems, immigration policies in which potential immigrants make an application to enter the country and then are selected on the basis of their skills, age, and occupation, have been proven to be more successful attracting high-skilled immigrants, but very few countries have implemented them. This is particularly paradoxical since high-skilled immigrants are more beneficial in fiscal terms: they are expected to pay more taxes than low skilled immigrants, and not depend heavily on government provided welfare. My core argument is that left of center governments in liberal welfare states implement points systems during a fiscal crisis as a mean of raising revenue for the state, staving off painful cuts in government spending.

Using statistical modeling, I study the timing of the implementation of selective immigration policies. I find that the presence of a liberal welfare state, a left of center government, and a fiscal crisis at the same time, make the implementation of these reforms more likely, while individually, each of this variables cannot explain the timing of the implementation of these policies. My dissertation also includes qualitative case studies on the development of immigration policy in different types of welfare states, where I focus on the political and economic environments in which immigration policies were implemented in different countries across history, particularly selective immigration policies.
This project turns some of the literature on globalization and domestic politics on its head. Rather than examining how globalization constrains the nation-state, globalization, in terms of immigration, can help solve domestic problems. This has implications for the study of the political economy of immigration, and can help provide insights into broader discussions on globalization and the state.
ACKNOWLEDGEMENTS

It has been a only five years since I arrived in Saint Louis, with only the books and clothes in my bag and painfully clueless, but I have grown so much in that period that I find it hard to recognize myself. It has been a bumpy ride, and there are so many people that I owe a big thank you for helping me grow so much during graduate school, that if I made a thorough list it would probably be as long as my whole dissertation. But clearly, on the top of the list I would put my two advisors: Nate Jensen and Andy Sobel. I am very lucky to be their student, if this dissertation has flaws is because I didn’t listen to their advice carefully enough.

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Andy has also been a fantastic advisor and I have learned a lot from working with him. He has the ability to be a tough advisor and have very high expectations on your work and at the same time provide enough positive feedback so that you don’t give up. I hope one day I have the ability to do the same. Andy has pushed me to have a strong and interesting theory for this project, even if it meant writing and re-writing drafts of my dissertation prospectus, and that has made this project much
better. I am also thankful for inviting me to write a piece with him and for all I learned in our co-authored paper about how to do research. He has also made sure to make the close-knitted IPE community in WashU a really superb group through parties in his house and organizing a reading group for the students. Thanks, Andy!

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Chapter 1

Introduction: Policy divergence in immigration

In the second half of the XX Century we observed a global movement towards liberalization of trade and capital flows, but increased immigration control. In the migration literature, some have argued that countries’ immigration policies are converging because of similar domestic pressures from labour shortages. This literature fails to show evidence of convergence. In theory we would expect to see convergence in both trade and immigration policies because the conventional knowledge is that they have the same effect on labor markets. Mundell (1957) was the first to argue that commodity movements are to some extent a substitute for movements of factors of production like capital and labor.¹ So, individuals who are affected by immigration would also be affected by trade and the coalitions to restrict or advance both issues would be the very similar. Industrialized countries have similar factor endowments,

¹Factors of production are resources employed to produce goods and services. In general terms there are three factors of production: land, labor, and capital.
so in order to answer the question is necessary to go beyond Mundell to understand what explains the different policy choices. Further, we would expect to see policy convergence regarding labor flows in labor scarce and capital abundant countries. In reality, that is not the case. Industrialized countries, who have similar factor endowments have a wide range of policies. While a majority of the studies regarding trade, fiscal and monetary policies find evidence of increased policy convergence, for immigration policy the evidence is at most limited. Heichel, Pape, and Sommerer (2005) summarize the findings of the literature on policy convergence for diverse issues, from banking regulation to social policy (table 2, pages 820-824). For immigration policy they found that most studies find limited convergence (Heichel, Pape, and Sommerer, 2005).

In this project I look at a largely unexplored element of the nexus between domestic politics and globalization: the political economy of immigration. While numerous scholars in Political Science, Sociology, and Anthropology have examined how identity shapes immigration policy, important questions remain. Economists have paid more attention to immigration, mostly focusing on the wage effects of immigration, and a smaller number of recent studies examining the fiscal policy impact of immigration. This dissertation focuses on the last of these elements, the fiscal consequences of immigration. Yet, rather than focus on the economic impact of immigration, I explore how the fiscal needs of the state determine the timing of immigration policy reforms. My core argument is that the fiscal contribution of immigrants is shaped by the character of the immigrants (high-skilled or low-skilled) and the type of welfare state. Countries with relatively small welfare states can use high-skilled immigration as a tool to raise revenue for the state. Thus, left of center governments can enact

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2 These different policies are described in great detail in the OECD International Migration Outlook [www.oecd.org/els/migration/imo](http://www.oecd.org/els/migration/imo)
certain immigration policies during a fiscal crisis as a mean of raising revenue for
the state, staving off painful cuts in government spending. This dissertation turns
some of the literature on globalization and domestic politics on its head. Following
what Gourevitch (1978) calls “second image reversed,” rather than examining how
globalization constrains the nation-state, globalization, in terms of immigration, can
help solve domestic problems. This has implications for the study of the political
economy of immigration, and can help provide insights into broader discussions on
globalization and the state.

Introduction

Domestic policies have historically been used as a response to global economic
crisis, and are cited as one of the causes of convergence in global policies. For ex-
ample, Meyers (2002, 132) argues that “global economic cycles” are an important
factor behind restrictions or liberalizations in immigration policies. Because a poor
international economy affects more than one country, one or more countries might
face incentives to reduce the number of immigrants at the same time, which could
possibly lead to convergence (Meyers, 2002). I argue that while economic downturns
may bring convergence in the implementation of immigration control policies, the
mechanism a country choose to do so will depend on its domestic economic and politi-
cal institutions. The argument goes along with Eichengreen and Irwin (2009) findings

Referring to an approach in which the international system is not only a consequence of domestic
policies and structures but a cause of them (Gourevitch, 1978, 911)

Brochmann and Hammar (1999) define immigration control as the “rules and procedures gov-
erning the selection, admission and deportation of foreign citizens. It also includes the rules that
control foreign citizens once they visit or take residence, including control of their employment”
(Brochmann and Hammar, 1999, 9).
for the post Great Depression era. Their study is not focused on immigration policy, but on trade restrictions and they find that while the conventional knowledge is that all countries restricted trade flows in that era, some did (those who remained in the Gold Standard), and some did not (Eichengreen and Irwin, 2009, 2-15).

For immigration policy, the options when facing a fiscal crisis are to either restrict the number of immigrants or reform policy to favor immigrants who would pay a high tax rate. In this case, the domestic institution that varies among countries to alleviate fiscal deficits is not monetary policy autonomy but the welfare state. In very generous welfare states, immigrants would need to pay a very high tax rate in order to provide deficit alleviation, which might decrease their incentives to migrate, as will be discussed later.

Types of immigration policies

According to Chaloff and Lemaitre (2009) “There are two principal ways of recruiting highly skilled workers from abroad. One is demand driven, through employer requests. The other is supply-driven and involves inviting candidates to apply and selecting them on the basis of certain characteristics, among them age, educational attainment, language proficiency and occupation, for which points are assigned. Candidates having more than a threshold level of points are then granted the right to establish residence” (Chaloff and Lemaitre, 2009, 2). An example of demand-driven immigration policy for high-skilled workers would be the H1-B visa in the United States,\(^5\) while an example of supply-driven policy would be the Canadian points system. We can categorize policies further as those that “select” immigrants according

\(^5\)I will describe this type of visa later in this dissertation.
to their skills\(^6\) and those that select their immigrants on the basis of family ties, which tends to reinforce low-skilled immigration.\(^7\) Out of the thirty countries that have ratified the convention of the OECD, only four countries currently have supply-driven immigration policies, attracting mostly high-skilled workers. Those countries are Canada,\(^8\) Australia,\(^9\) New Zealand,\(^10\) and Great Britain.\(^11\)

The lack of supply-driven policies systems is particularly paradoxical since through experiments (Hainmueller and Hiscox, 2010), survey data (Hanson, 2005) and in terms of their macro economic effects (Schou, 2006), there is evidence indicating that individuals of all education and economic levels prefer high-skilled immigrants to low-skilled immigrants and that the economic effects of high-skilled immigration are more beneficial. If both high and low-skilled individuals favor high-skilled immigration, we would expect countries to adopt policies that are less opposed to high skill immigration and restrict low skill immigration, but only a handful do.

In order to provide incentives to attract highly educated individuals, and avoid large flows of unskilled labor, some countries have established supply-driven immigration systems (points systems) a policy we observe in only a handful of countries.

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\(^6\)These are mainly points based systems, where potential immigrants are given points according to their characteristics and skills. Applicants who get enough points to get to a specific threshold are granted a visa. These system exist in Canada, New Zealand, Australia and most recently the UK. The United States, France and Germany tried to implement a points system in the last decade, unsuccessfully.

\(^7\)From now on, when I talk about “selective immigration policies” I mean policies that select immigrants on the basis of skills.

\(^8\)Canada adopted a points system in October 1, 1967(Hawkins, 1988, 11), (Richmond, 1976, 188)

\(^9\)Australia adopted a points system in 1973 (Richmond, 1976, 190), (Grattan, 1993, 130)

\(^10\)New Zealand adopted a points system in April 17,1990 (Farmer, 1996, 5)

\(^11\)Great Britain adopted a points system in December 2001, but it came gradually into force into force until 2008 when it was fully implemented (Somerville, 2007, 30-33).
Under a points-based selection, applicants are awarded points based on criteria such as education, occupational skills, and knowledge of the national language(s) and age. Applicants that get enough points to reach a certain threshold are allowed to immigrate legally. That does not include refugee applications, which are granted under different criteria. Evidence indicates that these policies do make a difference in the average skill level of immigrants. Defoort (2007) finds that if France would adopt a system similar to the one in Canada, “the percentage of immigrants that are high-skilled would increase progressively from 15.8% in 2000 to 61.3% in 2050, while it would only increase to 22.8% if the status quo remains” (Defoort, 2007, 153).\footnote{The original text is in French and it was translated by the author of this dissertation.}

There are some normative concerns regarding whether it is ethical to “select” immigrants according to their skills, or any other characteristics, on the grounds that these criteria are inevitably discriminatory and unfair. Opponents of supply-driven policies have called them “a experiment in social engineering” and argued it would be a “caste or class based immigration system”\footnote{Speech given by then Senator Barack Obama on June 6, 2007 when introducing an initiative with Senators Menendez and Feingold to sunset the points system that was proposed in the Comprehensive Immigration Bill of 2007, which ended in cloture.} The problem is that any immigration policy that favors group A and limits group B is going to “discriminate” against a B. This, however, uses the term discrimination merely to mean non random choice. The degree to which a criteria is ethical depends on whether the it is related to some relevant characteristic for the society that is receiving the immigrants. For example, an immigration criteria that restricts the entrance of women would be, according to Carens, less ethical than a criteria that restricts on the basis of education levels because unlike gender, schooling is an attribute that can be changed. He compared
this to college admission, an area in which test scores are an ethical selection criteria, but race is not (Carens, 2003).

Most OECD countries have some policy directed at attracting high-skilled workers. In most cases, it is a demand-based policy in which the employers take the initiative to invite immigrants. The request is conditional on an employment test to ensure that no resident is available to fill the job vacancy adequately, as is the case in the United States for H1-B visas. In supply-driven systems successful candidates are given the right of permanent residency and many arrived without guaranteed employment. The selection of the immigrants does not fall on the employers but on the policy makers who determine the points allocation and the people who decide to apply for a visa. As a consequence, visas such as the H1-B are not substitutes for a points system because they are temporary, don’t provide for citizenship or residence status, are capped, and require a US company to sponsor the applicant (Shachar, 2006).

One could argue all immigration policies are merit-based, since all countries attempt to attract to some extent high-skilled immigrants. But, not all countries attract them to the same extent or prioritize the recruitment of high-skilled foreign workers over other types of immigrants. Belot and Hatton (2008) measure the selectivity of immigration policy in OECD countries and find that those with points systems attract a higher percentage of high-skilled immigrants, as evidenced by Table 1.1.
Furthermore, demand-driven systems are designed to attract immigrants that employers have hired, which might or might not be the most qualified, and might or might not be net contributors to the welfare state. In contrast, points systems are designed to attract those immigrants that have the highest skills that because of their age will be net contributors to the welfare state for the longest period of time. Table 1.2 shows how the points are allotted in the four countries that have points systems (Chaloff and Lemaitre, 2009, 23).
Table 1.2: Allotment of points under different selective immigration systems in 2008

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>UK/HSMP</th>
<th>Australia/GSM</th>
<th>Canada/SW</th>
<th>New Zealand/ SW</th>
</tr>
</thead>
<tbody>
<tr>
<td>Language ability</td>
<td>10</td>
<td>15-25</td>
<td>0-24 (16+8)</td>
<td>Obligatory</td>
</tr>
<tr>
<td>Sufficent Funds</td>
<td>10</td>
<td></td>
<td>Obligatory</td>
<td></td>
</tr>
<tr>
<td>Age (younger = more points)</td>
<td>5-20</td>
<td>15-30</td>
<td>0-10</td>
<td>5-30</td>
</tr>
<tr>
<td>Qualifications/ Academic</td>
<td>30-50</td>
<td>5-25</td>
<td>0-25</td>
<td>50-55</td>
</tr>
<tr>
<td>Skilled Occupation</td>
<td>40-60</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Work experience</td>
<td>5-10</td>
<td></td>
<td>0-21</td>
<td>10-30</td>
</tr>
<tr>
<td>Recent earnings</td>
<td>5-45</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Spouse/ partner skills</td>
<td>5</td>
<td></td>
<td>0-10</td>
<td>50</td>
</tr>
<tr>
<td>Shortage occupation</td>
<td>15-20</td>
<td></td>
<td></td>
<td>20</td>
</tr>
<tr>
<td>In-country work experience</td>
<td>5</td>
<td>10</td>
<td>0-10</td>
<td>5-15</td>
</tr>
<tr>
<td>Regional study</td>
<td>5</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Designated area sponsorship</td>
<td>25</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Job offer</td>
<td></td>
<td></td>
<td>0-10</td>
<td>50-60</td>
</tr>
<tr>
<td>State/ territory of settlement</td>
<td>10</td>
<td></td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>Professional Language Skill</td>
<td>5</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number required</td>
<td>95</td>
<td>100-120</td>
<td>67</td>
<td>100-140</td>
</tr>
</tbody>
</table>

Selective immigration systems have consequences beyond selecting high-skilled immigrants. Schaaafsma and Sweetman (2001) study the impact of age at immigration for Canada and find that immigrants who arrived to Canada at an earlier age have higher earnings. This is similar to what Economist Robert D. Lee declared in a hearing in the Subcommittee on Immigration of the Judiciary Committee in the United States in 1997 arguing the fiscal impact of immigration depended on the age and education of the immigrants:

Fiscal impact varies with age at arrival of immigrant. Immigrants arriving in their 60’s cost taxpayers a total of about $150,000 a piece. But less than 5 percent of immigrants are over 65 at arrival and most immigrants arrive at younger ages when total contributions are very positive. Fiscal impact also varies with education. Immigrants who arrive with less than high school cost $10,000 apiece. Those with high school contribute $50,000
positive, and those with more than high school contribute $200,000 a piece.\textsuperscript{14}

Belot and Hatton (2008) study the factors that drive the educational selectivity of immigration in the OECD. They measure immigrant selectivity as the log of the ratio of the share of high-skilled immigrants divided by the share of high-skilled natives in the country. Larger selectivity means that the countries select immigrants more highly skilled than their population. If selectivity approaches one it means the country selects immigrants that have very similar skills as the country’s population. Low selectivity means that the country’s immigrants have lower skills than the population. Belot and Hatton ultimately find that geographical proximity and language are the main determinants of their measure of educational selectivity. This would assume implicitly that policies have no effect on immigrant selection, but the data shows some relevant patterns. These data show that with the exception of New Zealand, countries with a points system are more likely to have immigrants who are more educated than their own populations. Their measure, however, is problematic. Since they measure the selectivity, relative to the native population, countries with lower average education levels relative to the rest of the sample, such as Ireland, Portugal and Hungary seem more “selective” even though their immigrant population is not necessarily more highly skilled, while countries like New Zealand with higher average education levels seem less selective even though their immigrant population is not necessarily less skilled than for the rest of the sample (Barro and Lee, 2000). In contrast, Cerna (2009) focuses only on political institutions and the preferences of high and low skill labor in the receiving countries. She predicts that “the countries with more restrictive immigration policies will be those with Proportional Representation systems, high

\textsuperscript{14}Hearing before the Subcommittee on Immigration, On examining the Economic and Fiscal Impact of Immigration in the United States, September 9, 1997. Serial No. J-105-45
union density, and highly centralized associations of unions and employers” (Cerna, 2009, 156). In contrast with Belot and Hatton, she does not test her hypotheses or presents data to support them, but she makes an important contribution to the knowledge of high-skilled immigration policy by bringing to light the importance of political factors for immigration.

Are selective immigration policies generally effective? Borjas (1991) studies the impact immigration had in Canada and the United States from 1959 to 1981. In the 1960s their immigration policies diverged since Canada changed its policy to stress skills (points system) while the United States stressed family reunification. He finds that the average skills of immigrants in Canada are on average higher than for immigrants in the United States. A drawback of selective immigration systems is that they would have an impact on the national origin mix of the immigration flows. Borjas (1999) constructs a thought experiment. If the United States had had a points system between 1985 and 1990 emphasizing education (high school level), English proficiency and age, around forty-one percent of the legal immigrants to the United States in the same five years would not have gotten enough points to migrate. Furthermore, almost 75% of Mexicans would have failed to enter, compared with 14% of Germans and 18% of Indians (Borjas, 1999, 195). That does not mean the system would be equivalent to the national origin quotas that existed in the postwar era, in which non-educated white people could immigrate more easily than a non-white person with a graduate degree. The quotas are still a demand-driven policy, while the points systems are supply-driven.
Selective immigration as fiscal policy

In the face of a fiscal deficit, a welfare state can use immigration policy as an alternative to welfare state retrenchment. While right of center parties traditionally would opt to cut government spending in the face of a fiscal crisis which would imply shrinking the welfare state, left of center parties tend to prefer other alternatives. In countries where a potential high-skilled immigrant would pay more in taxes than what she would use in government provided welfare, left of center governments can use points systems to select immigrants with those characteristics and alleviate the fiscal deficit.

In sum, I argue that the interaction of three features increases the likelihood that a country enacts a points system:

1. A liberal welfare state,
2. A fiscal deficit,
3. A left of center government.

Liberal Welfare States can be characterized as less “generous” welfare states in the sense that most people need to have employment to receive social welfare. Furthermore, in these countries the welfare state is not universal, the bulk of the recipients of social welfare are lower income groups, and the bulk of the taxes to fund it come from higher income groups because liberal welfare states have, in general, a more progressive taxation system (Cusack and Beramendi, 2006). Therefore, high-skilled, high-income immigrants to these countries will be net contributors to social welfare programs. As a consequence, those governments that want to maintain or expand social welfare in these countries are likely to favor high-skilled immigration in times of fiscal scarcity. But, which governments are those? In a Liberal Welfare State, selective policies for high-skilled workers are more likely because in those systems
the fiscal cost of the social welfare provision is relatively low. These countries tend to have mostly means-tested programs instead of universal welfare provision. That implies that a high-skilled person is less likely to receive welfare benefits, but more likely to pay a high level of taxes.

An immigration policy that is selective on skills is beneficial in financial terms even in times of economic boom. Immigrants affect a country’s fiscal system in many ways. Like all the residents in a country, an immigrant pay taxes on their work and on the goods they consume. While the taxes that a low-skilled immigrant pays might be small, for high-skilled immigrants, the amount of taxes is more substantial, particularly in their most productive years. A situation of fiscal crisis makes immigration policy reform since it would reduce the political costs of implementing a points system and would make the alternative of increased spending less viable. For example, in times of fiscal surplus, it might be hard to convince constituents that they need to share’ with newcomers, even if they are high-skilled, especially if the welfare state is not threatened. If there is a fiscal crisis, and shrinking the welfare state is the only alternative to tax increases, a selective immigration policy would be politically easier to sell since the median voter is not making higher tax payments, but is receiving potentially the same amount of welfare. That increases the likelihood of a country enacting a points system.

Finally, a left of center government is more likely to push for skill-selective immigration policies since the potential high-skilled immigrant would not be competing for employment with the median voter from the left. Also, according to the Roy model capital owners would oppose higher inflows of low-skilled immigration which would increase their returns since these factors are complimentary. Furthermore, in industrialized countries extreme right parties tend to hold anti-immigration platforms
(Mudde, 1999) and governments from left of center parties are less likely to form a coalition with them.

Theory

The rationale for the theory can be simplified by a few equations. If $T_i$ represents the taxes a high-skilled immigrant would pay, $W_i$ the welfare they would receive from the government, and $T_n$ and $W_n$ the equivalent for natives, then if:

- $T_i < W_i + (W_n - T_n) \Rightarrow$ Tax increase

And if:

- $T_i > W_i + (W_n - T_n) \Rightarrow$

But, it can be simplified even further. The high-skilled immigrants do not need to solve the fiscal crisis, it is enough if they make it better, as follows:

- $T_i < W_i \Rightarrow$ Tax increase

And:

- $T_i > W_i \Rightarrow$ Attempt to implement a points system

Under the first version, the fiscal benefits are larger and as a consequence a points system is even more likely. However, that doesn’t mean another type of policy that attracts high-skilled immigrants but is less selective than a points system would not bring any fiscal benefits. Under the simplified version the flow of high-skilled immigrants still benefits the government’s income, even if the fiscal deficit is not solved. So the country would still be better off with a policy that attracts more high-skilled
immigrants. In other words, immigration implies a fiscal cost only when immigrants use more welfare than the taxes they pay. The immigration policies of the different types of welfare states will differ not only because of their fiscal needs but also because of the incentives they provide for high and low-skilled immigrants to reside in their country.

This rationale applies for any policy that attracts high-skilled immigrants, either a demand driven policy or a points system, however, I decide to focus on the latter in order to have a more parsimonious theory. Since the points system has been shown to be by far the most extensive of these policies—because they bring immigrants of higher skills and in larger amounts—(Belot and Hatton, 2008; Borjas, 1991, 1999; Green and Green, 1995) I focus on points systems. Furthermore, as can be seen in the case studies in chapters 3 and 4, less generous high skilled immigration policies such as the H1-B visas in the United States in 1990, the French Cards of Skills and Talents in 2006, and the German Green Card in 2004, have uniformly been implemented as a second step after failed attempts to implement a points system, so these very simplified equations still capture the incentive structure for policy makers in countries faced with fiscal crises.

The argument implies that there is a moral hazard problem since it immigrants might take advantage of the welfare state of the receiving country. One might argue, however, that the welfare states that need more fiscal income are the social democratic welfare states. It is, however, harder for those countries to attract high-skilled immigrants to begin with given the fact that their income, once taxes are discounted, would be lower than in a liberal welfare state. Schou (2006) finds evidence supporting this argument for Denmark, and Storesletten (2003) for Sweden.
Review of the literature

Previous studies on welfare states and the fiscal consequences of immigration

Empirically, there is some evidence supporting the argument that high and low-skilled immigrants have different effects on the welfare states. Borjas (1999) finds that immigrants are more likely to receive welfare than natives. Specifically, in the early 1990s the fraction of immigrants on welfare exceeded that of natives by about seven percent. He argues that the reason that occurs is the socioeconomic differences between the two groups: “Adjusting for household size alone reduces the welfare gap to 6 percentage points. If one further adjusts for differences in the educational attainment, age, and gender of the household head, the welfare gap falls to 2 percentage points.” (Borjas, 1999, 112-113).

Storesletten (2000) argues that selective immigration in the United States should be able to mitigate part of the fiscal burden associated with the aging of the population. He finds that “to the extent that an immigration reform that involves the admission of 1.6 million 40-44-year-old high-skilled immigrants annually is feasible, the government can choose between this reform and an income tax hike of 4.4 percent points. In comparison, the number of high-skilled 25-49-year old immigrants required to balance the budget is 1.8 million, or 0.70 percent of the population annually.” (Storesletten, 2000, 314) He does a similar analysis for Sweden, a traditional welfare state and find that in that case immigrants impose a larger fiscal burden and are less beneficial in fiscal terms than immigrants in the United States (Storesletten, 2003). The difference, of course, between the United States and Sweden is the type of welfare state they have.
Previous studies also show that the type of welfare state affects the incentives to immigrate to a certain country. Cohen and Razin (2008) find that the generosity of a welfare state adversely affects the skill composition of immigrants under free immigration but it has a positive effect under controlled immigration. Since low-skilled immigrants may put a strain on the welfare state, “voters in an aging population might opt for an immigration policy that is more liberal and that upgrades the composition of the immigration” (Cohen and Razin, 2008, 3).

**Fiscal deficits and immigration**

The adverse effects of low-skilled immigration on welfare states are worsened by environments of fiscal crisis, which provides policy makers with incentives to move away from the status quo. Hollifield (1992) describes a similar phenomenon for France and Germany during the 1970s. Rising energy prices as a result of the Arab oil embargo contributed to inflation and unemployment causing a recession. Confronted with the first large increase in unemployment after World War II, France and Germany restricted immigration and suspended the recruitment of foreign workers. My argument, instead, is that some governments facing a fiscal deficit will not reduce the number of immigrants, but instead move towards a system that selects immigrants on the basis of skills. A historical example is the literacy test implemented in the United States early in the XX Century. Goldin (1993) studies immigration restrictions in the United States from 1890 to 1921, particularly the literacy test which can be considered a precedent of the current immigration policies that select immigrants according to their skills. She finds that almost all serious calls for the literacy test were preceded by economic downturns.15

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15The literacy test was an exam administered to physically able adults to assess their ability to read. It generally consisted of reading several sentences of the constitution in any language chosen
Left of center governments and fiscal policies

One of the main arguments this dissertation makes is that, under left of center governments in liberal welfare states, supply-driven policies can substitute a tax increase, yet obtaining the same fiscal gains. It is therefore important to analyze under what conditions the left and right of center governments differ in their tax policies. Traditionally, left and right of center governments have reacted to economic downturns differently (Hibbs, 1977). The core constituency of left parties generally holds most of their wealth as human capital and occupy jobs of low status, so in a recession they are likely to be the first ones to become unemployed. Following this logic, left of center governments are more likely to approve a point system of immigration, even in times of economic bonanza to avoid large fiscal deficits in times of crisis. Right of center governments, under this framework would be indifferent towards immigration policy as long as it does not affect inflation.

Left of center governments and selective immigration policies

Finally, I argue left of center governments are more likely to enact a points system, because right of center parties would rather cut public spending when they face an economic contraction. The traditional argument about macroeconomic policies and political parties is that right wing parties will try to avoid high inflation while the left wing parties will try to avoid unemployment (Hibbs, 1977). Cusack (1999) in contrast argues that there is a different rationale in place. Since the constituency of the left is more economically vulnerable, they are more willing to use fiscal policy by the potential immigrant. It was finally approved in 1917 when the Senate overrode a Presidential veto.
as a tool to increase economic growth, whereas the right is hesitant about using this fiscal tools because that means interfering with the workings of an efficient market.

Another reason why right of center governments might be less likely to enact a points system is that an increase in the inflow of low-skilled immigration -scarce factor- would make the returns to capital -abundant factor- greater, according to the Stolper- Samuelson theorem. For example, Timothy Kirkhope, conservative member of the European Parliament, published a report called *Building a Fair Immigration System* as a response to the implementation of a selective immigration policy in the U.K. where he says that: “The business community may benefit from cheap labour, especially in the short term, but low-paid, low-skilled British workers, many of whom are British-born from settled immigrant communities, lose out from fresh immigration.”16

Previous studies find that the spending of both anti and pro immigration interest groups have a significant impact on immigration policy. Facchini, Mayda, and Mishra (2007) find that “industries with higher lobbying expenditures on immigration have a larger number of visas approved by the Department of Homeland Security (DHS).’ In addition, industries with lower union membership rates have a larger number of H1-B visas approved by the DHS” (Facchini, Mayda, and Mishra, 2007, 19). If we extend the analysis to other liberal welfare states, and there is no reason to think interest groups work differently in the United States than in the United Kingdom or Canada, industries or interest groups who spend more of their resources lobbying legislators are more likely to affect legislation. If returns to high-skilled labor increase with greater low-skilled immigration, then capital owners will lobby to increase the latter. The interest groups who are likely to support left of center parties, such as

labor unions, want to increase the returns to low-skilled labor which they can achieve by increasing high-skilled immigration and restricting low-skilled immigration. The logic behind this argument comes from the Roy model. Roy (1951) explained how the concentration of skills in different occupations affects the distribution of earnings. In a two occupations scenario, he concludes that if conditions are such that we can differentiate the best workers in each occupation while at the same time leaving sufficient competent workers for the other activities, an increase in the demand for the product in any kind of industry will clearly cause productivity in that occupation to fall and in all others to rise. As a consequence, the left of center parties, who want to make their median voters wages higher, and receive more lobbying funds from the relevant interest groups will promote a points system, which would decrease the demand for native high-skilled labor and as a consequence increase the productivity of low-skilled labor. Also, left of center parties are less likely to form a coalition with extreme right parties, which tend to have an anti-immigration platform.

**Alternative hypotheses**

**Political institutions**

Since the four countries that have enacted selective immigration policies are members of the Commonwealth of Nations, one might think that the establishment of similar immigration policies is due to path dependence, since most of the political institutions of these countries were inspired in their counterparts from Great Britain. If that were the case, however, we would expect the United Kingdom to be the first one to implement a points system and inherit it to its former colonies, but the UK was the last country to implement it. Furthermore, the common institutions of these
countries -Westminster System-\textsuperscript{17} are important policy determinants in many cases. There are, however, fifty-three members of the Commonwealth and we only observe four cases. If the path dependence argument were right, we should observe more countries with immigration points systems. There are other theories which deal with the question of what determines the implementation of different immigration policies.

**Effects of immigration in the labor market**

A common argument among some economists is that the effect of an inflow of workers reduces wages. In order to avoid that, restrictive immigration policies are implemented. An increase in the stock of immigrants is an expansion of the supply of labor in the receiving economy. This, however, assumes a unique labor market for both natives and immigrants, which is not realistic. Some sectors will compete to a larger degree with the immigrants in the labor market while others will be almost immune. Unless the immigrants come from a society with the same factor endowment than the receiving country, the last assessment is more generalizable. Roy (1951) explained how the concentration of skills in different occupations affects the distribution of earnings. Moreover, the effect of immigration on labor is also affected by the mobility of other factors of production. Following Mundell, in a country with scarce labor, if a country puts up a tariff to protect the scarce factor in the absence of immigration, wages will increase. But if labor is mobile and can move across borders, then immigration will limit the trade induced wage increase, and wages will converge between the two countries. By the same logic, an immigration policy designed to protect domestic labor will be undone by free trade or capital movements abroad seeking cheaper labor inputs. Absent a prohibitive restriction of trade, the relationship and trade-offs across

\textsuperscript{17}New Zealand, however, has a mixed electoral system since the mid-1990s.
trade, and the mobility of labor still hold (Rybczynski, 1955) and all this is consistent with the Heckscher-Ohlin model of international trade. The Heckscher-Ohlin model argues with two factors of production, for example capital and labor, given an increase in trade, the wages of the factor that, relative to the rest of the world, that society has in abundance will go up, and the wages of the scarce factor will go down. If we extend this logic to immigration, we would expect that an increase in the stock of immigrants in a country will reduce the wages of the scarce factors, and increase the wages of the abundant ones. For example, in a country that is abundant in high-skilled labor (capital intensive industries) and scarce in low-skilled labor, an increase in the flow of immigrants will benefit the high skill workers, and negatively affect those with a lower skill level. Furthermore, we would predict emigration to come from labor abundant countries towards labor scarce ones. There is a caveat. Even inside one factor of production different industries have varying levels of integration with global markets, and the Heckscher-Ohlin model assumes almost perfect factor mobility, which might not always be a viable assumption. Another model of international trade that is widely used in the Ricardo-Viner model. It assumes that at least some factors cannot move between sectors of the economy, so their fortunes fall and rise together whether they are the same type of factor or not.

The empirical evidence showing whether the factor endowments framework explains successfully policy makers decisions is mixed. Medina (2007) finds for the United States Senate between 2005 and 2006 that Senators from states that rely heavily on manufacturing and that have higher average education levels are more likely to be in favor of immigration liberalization, but the partisan identification of Senators was also a determinant of the direction of their vote. Paradoxically, the Republican Party, who usually supports trade liberalization is more likely to be oppose immigration liberalization. This is consistent with Hix and Noury (2007) who look
at the passage of six pieces of migration and immigrant integration legislation in the Fifth European Parliament (1999 to 2004) and find that the main determinant of the direction of Parliamentary votes is the position in the left-right dimension of the Members of Parliament, and not economic variables such as unemployment levels.

This framework relies on the assumption that trade and immigration are substitutes, as Mundell stated. Hatton and Williamson (2005), however, describe what they call a “dual policy paradox”: Today’s labor scarce economies have open trade and closed immigration policies, while a century ago they had just the opposite. If these policies were substitutes, there would be a coalition in favor of both trade and immigration and both policies would be restricted at the same time. They argue this is due to a reduction in the cost of migration, macroeconomic shocks and finally because in the Nineteenth Century immigrants might not have been a burden on the welfare state. Moreover, if Wellisch and Walz (1998) insight is right, and countries prefer free trade to free migration because of the existence of the welfare state in modern societies, we can infer that even when these issues are economic substitutes as Mundell stated they are not policy substitutes. The effect of immigration in the labor market is smaller than the theory predicts. Furthermore, the evidence points out that high-skilled labor has a positive or null effect on wages. If policy makers were thinking about the labor market when deciding policy, more countries would have supply-driven policies trying to attract high-skilled labor. As mentioned above, this is not the case. Most countries have demand-driven systems in which previous immigration skill patterns are reinforced. The answer to the determinants of immigration policy is then not in the factor endowments of the country or on the strength of racism but on the fiscal effects of immigration.
Ideology and Xenophobia

Another common argument about policy making of immigration policy is that the rationale behind a policy is not economic, but ideological or xenophobic. One argument is that the reason liberal states accept “unwanted” immigration is that in some states, particularly European, feel an obligation towards certain immigrant populations, such as members of former colonies. Joppke (1998) argues also that “accepting unwanted immigration is inherent in the liberalness of liberal states. Under the hegemony of the United States, liberalism has become the dominant Western idiom in the postwar period, indicating a respect for universal human rights and the rule of law” (Joppke, 1998, 292-293).

Nonetheless, the United States, perhaps even more than other countries, has tried to avoid unwanted immigration for decades increasing security along the border, punishing employers and deporting illegal immigrants, the opposite of what he argues the “liberal values” would imply. Furthermore, if his argument were correct all liberal democracies would have the same policies regarding unwanted immigration. Nothing further from the truth: there is a wide variance on immigration policies across liberal democracies: quotas, point systems, family based systems, among others. The literature establishing racism or a certain ideological bent as a motive for immigration restrictions hasn’t effectively tested their hypotheses or convincingly made an argument that competing hypotheses are not muddling their theories. Furthermore, these ideologies and xenophobia exist in every country to a certain degree, but we don’t see a convergence in immigration control policies. Finally, some researches argue that the factor endowment of a country is what determines an immigration policy. In the case of immigration, we would expect individuals in the societies that use labor intensively to oppose immigration because of the threat of losing their jobs to immigrants
or to see their wages reduced. However, the owners of those labor intensive industries would be in favor of immigration, and if there is a larger supply of workers, there would be an incentive to create more labor intensive industries, therefore creating new jobs in that region. For example, an assembly line worker in a region with abundant manufacture industry might fear the arrival of more workers. If the latter accept to work for a lower salary than him, he might lose his job. But, if there is a large number of assembly line workers in that region, investors from other places will have an incentive to build a factory in that region, therefore creating more job opportunities for manufacturing workers. If we assume that politicians are reelection seekers, then they will try to do whatever helps them achieve that goal. We would therefore expect policy makers from regions abundant in labor -particularly low-skilled labor-\textsuperscript{18} to favor immigration liberalization, and policy makers from regions where labor is scarce to oppose it.

\textsuperscript{18}The Roy model would predict that if immigration is unregulated, most immigrants would be low-skilled.
Chapter 2

Testing the hypotheses

There is little debate about whether a country has the right to decide which criteria to use to determine its immigration policy. Even in 1892, the United States Supreme Court stated that “It is an accepted maxim of international law that every sovereign nation has the power, as inherent in sovereignty and essential to self-preservation, to forbid the entrance of foreigners within its dominions or to admit them only in such cases and upon such conditions as it may see fit to prescribe (Nishimura Ekiu v. United States, 142 U.S. 651, 659).” Countries, however, differ in the criteria they choose and the timing of their implementation. In any quantitative large-N research the analysis depends on the ability of the author to the concepts with appropriate quantitative indicators and models. At first, it might seem like the obvious choice for this dissertation would be to create a measure of countries with and without points systems. That, however, does not reflect the theoretical concept. The research question is not what determines if a country has a points system -that can more easily

\footnote{Taken from Money (1999)}
be done reading a cross national description of the immigration control policies like the *International Migration Outlook*, published every year by the OECD- but under what conditions and timing such systems are adopted.

This study goes further than previous analysis by focusing on the timing of the implementation of selective immigration policies, besides the type of countries that are more likely to do so. Previous analysis, focus on the institutional determinants of immigration policies, in particular electoral systems (Cerna, 2009). Electoral systems are static institutions, they change only rarely. As a consequence, if we use type of electoral system as the main explanatory variable, it is harder to explain the timing of the implementation of the policy since it does not change often enough. The same could be said about hypothesis related to culture (Joppke, 1998). Liberal ideals have been present in the hegemonic powers, the United States and Great Britain, for over a century. This makes it hard to argue the hegemonic ideals are the reason countries reform their immigration system towards more selective policies in a specific period and not another.

While the type of welfare state of a country does not vary significantly across time, the fiscal deficit and the party in government do change often. This allows me to explain the timing of the implementation of the reforms, and not only what kind of countries would implement selective immigration policies. The purpose of this chapter is to test whether Liberal Welfare States with left of center governments that face fiscal crises are more likely to implement a points system. This means the theory relates to the timing of the implementation. For that reason, I consider the appropriate strategy is to measure the time it takes to change the *status quo* for a points system given a set of covariates and use event history modeling, also called duration or survival modeling. The different names stem from the different types of applications in which this type of models have been used. For example, in engineering
they have been used to study how long until a component fails? (duration). In epidemiology they are commonly used to determine the lifespan of a subject, given a set of constrains (survival).

Each of these questions has in common the notion of timing, but survival models are still somewhat rare in Political Science. Carter and Signorino (2009) suggest that the Cox Proportional Hazards model -the most common duration model- is equivalent to a complementary log-log model with time dummies. Using a logit or cloglog model with time dummies, however, entails some risks, so Carter and Signorino suggest including $t, t^2$, and $t^3$ as regressors. The logit regression model would then take the form:

$$
Pr(y_{i,t} = 1) = \frac{1}{1 + \exp[-(x_{i,t}\beta + \alpha_1t_i + \alpha_2t_i^2 + \alpha_3t_i^3)]} 
$$

(2.1)

where $s(t_i) = \alpha_1t_i + \alpha_2t_i^2 + \alpha_3t_i^3$ is a cubic polynomial approximation to the hazard (Carter and Signorino, 2009, 16-17).

The data

The database spans from 1960 to 2007 and includes eighteen OECD countries: Australia, Austria, Belgium, Canada Denmark, Finland, France, Germany, Ireland, Italy, Japan, the Netherlands, New Zealand, Norway, Sweden, Switzerland, the United Kingdom and the United States. My database starts in 1960 because for the sample, data is not available before that year. This should not cause estimation issues because the first country to implement a selective immigration policy did so in 1967, seven years after the start of the sample. Furthermore, I will offer qualitative data before

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1960 in the following chapter to compensate for the lack of historical quantitative data.

Even though all of these countries are industrialized economies, I consider there is not selection bias because the criteria for the country selection are not related to my response or dependent variable. The argument is not that the level of industrialization of a country makes a country more likely to implement a points system. In fact, there is no reason to conclude that it would be detrimental for a middle or low-income political economy to implement a points system. It would, however, be ineffective. High-skilled workers will migrate, holding everything else constant, only when their potential net income in the country where they would immigrate is larger than the net income in the country where they live. Since the wages in middle and low income economies tend to be lower than in richer political economies, it is unlikely that immigration flows will be large enough to make it a relevant political and economical issue that policy-makers pay attention to. It is more likely therefore that in low and middle-income countries emigration is one of the salient issues.

**Hypotheses and operationalization of variables**

The purpose of this study is to find why countries implement a points system and when. Therefore, the response variable is the implementation of points systems in a certain year. This is measured in the following way: $Y_{cy} = 1$ when the country $c$ implements a points system in year $y$. While there are only four cases, that is the totality of points systems, so I have the entire population of countries with this policy. Furthermore, each of the implementations are in different periods of time, so there is no year (or decade even) with more than one implementation.

The main hypothesis of this paper is that the presence of a fiscal crisis in a liberal welfare state with a left of center government. As a consequence I will test
my hypothesis with a three term interaction of fiscal crisis, left, and welfare state. Because the variables for fiscal crisis and left of center party make sense only in comparison with either other periods in time I centered them by country. I did not do the same for the type of welfare state, since it only varies marginally during the period of study.

They are measured in the following way:

- **Fiscal crisis**: \((\text{Public income} - \text{Public expenditures})_{cy} - \text{average (Public income } - \text{ Public expenditures})_{c}\)

- **Left**: \%% legislative seats occupied by left of center parties in country \(c\) in year \(t\) - average \%% legislative seats occupied by left of center parties in country \(c\)

- **Welfare State**: Decommodification index \(cy\)

There are both theoretical and statistical reasons for centering these variables. From a theoretical point of view, the existence of a fiscal deficit is not tantamount to a fiscal crisis for several reasons: the deficit might be small, and a country might regularly have fiscal deficits -because of the structure of its welfare state, type of government, or other structural reasons- which might not imply a crisis in the sense that the deficit is not endangering the fiscal health of the government. The same argument can be made for the presence of left of center governments, which are more common in some countries because of structural reasons -electoral systems, political cleavages, etc.- There are also statistical reasons for centering these variables. Smith and Sasaki (1978) explain how in multiplicative interaction models centering the variables decreases multicollinearity between the multiplicative terms and its components, and suggest centering around the mean so that the effect increases with deviations from the most frequent or expected values. For that reason, centering variables in multiplicative terms is a common norm in statistics.
I also included variables traditionally included in the literature. Some of them are hard to measure. For example, the concept of culture is hard to define and measure, since it includes language, religion, and traditions. In this case, I used a measure common in the literature which is the percentage of protestant population. While this measure is not perfect, given that some authors such as Freeman (1995) state that English speaking societies have different immigration policies since their societies were created by immigration -in particular, former colonies- there is a large overlap between societies where English is the main language and those where the majority of the population is of protestant origin. I also included a measure of federalism, since Schaltegger and Feld (2009) finds that the fiscal adjustments necessary after a fiscal shock or crisis are harder to implement in a federal system than in a centralized one. Finally, I also included a measure for electoral system, since Cerna (2009) argues countries with proportional representation have less generous high-skilled immigration policies. The operationalization of the variables is:

- **Culture** ≈ % the population that is protestant (Stulz, 2003)

- **Federalism**: 0= central, 1= weak federalism, 2= strong federalism (Schaltegger and Feld, 2009)

- **Electoral system** ≈ Gallagher index of electoral disproportionality \( LS_q = \sqrt{\frac{1}{2} \sum_{i=1}^{n} (V_i - S_i)^2} \) (Gallagher, 1991).

The results if running a logit regression, including \( t^1, t^2, \) and \( t^3 \) as regressors are:
Table 2.1: Results of the logit regression model

<table>
<thead>
<tr>
<th>Variable</th>
<th>Multiplicative Interactive model</th>
<th>Not interactive model</th>
</tr>
</thead>
<tbody>
<tr>
<td>Decommodification * Left* Crisis</td>
<td>-0.00005 (0.0003)</td>
<td></td>
</tr>
<tr>
<td>Decommodation * Seats</td>
<td>0.005 (0.013)</td>
<td></td>
</tr>
<tr>
<td>Decommodification * Crisis</td>
<td>-0.0002 (0.002)</td>
<td></td>
</tr>
<tr>
<td>Seats * Crisis</td>
<td>0.0009 (0.005)</td>
<td></td>
</tr>
<tr>
<td>Decommodification</td>
<td>-0.263 (0.14)</td>
<td>-0.255 (0.14)</td>
</tr>
<tr>
<td>Left seats</td>
<td>-0.026 (0.28)</td>
<td>0.075 (0.064)</td>
</tr>
<tr>
<td>Crisis</td>
<td>0.003 (0.03)</td>
<td>0.0007 (0.00)</td>
</tr>
<tr>
<td>Protestants</td>
<td>0.042 (0.028)</td>
<td>0.042 (0.028)</td>
</tr>
<tr>
<td>Federalism</td>
<td>0.665 (0.644)</td>
<td>0.667 (0.628)</td>
</tr>
<tr>
<td>Gallagher</td>
<td>0.153 (0.106)</td>
<td>0.162 (0.100)</td>
</tr>
<tr>
<td>( t )</td>
<td>-2.183 (0.48)</td>
<td>-2.135 (0.441)</td>
</tr>
<tr>
<td>( t^2 )</td>
<td>0.099 (0.02)</td>
<td>0.096 (0.025)</td>
</tr>
<tr>
<td>( t^3 )</td>
<td>-0.0013 (0.0004)</td>
<td>-0.001 (0.003)</td>
</tr>
<tr>
<td>Intercept</td>
<td>8.971 (3.955)</td>
<td>8.584 (3.602)</td>
</tr>
<tr>
<td>N</td>
<td>667</td>
<td>667</td>
</tr>
<tr>
<td>Pseudo ( R^2 )</td>
<td>0.9143</td>
<td>0.9139</td>
</tr>
</tbody>
</table>
The first important point is that the statistical significance of the components of the multiplicative terms does not change from the interactive model to the simple model. There are, however, two issues that are important to mention before interpreting the results of this regression. First, the coefficients or $\beta$'s in the logistic regression model do not measure how the mean of $Y$, our response or dependent variable, changes when $X_1$, one of our explanatory or independent variables, changes by one unit when all other predictors are held constant, as would be the case in a linear model. Rather, it models the changes on the mean of $Y$ as transformed by a logit link, defined as $\ln \frac{\mu}{1-\mu}$ (Agresti, 2002; Jaccard, 2001). Since the logit coefficients are odds, which are not as intuitive as a linear relationship, it is easier to interpret them by transforming them into estimated probabilities, as King, Tomz, and Wittenberg (2000) suggest.

The second important issue is that since this is an interactive model, in order to estimate the effect of having at the same time the three conditions mentioned in the theory (a liberal welfare state, a fiscal crisis, and a left of center government) it would be incorrect to estimate how the probability of implementing a points system in a certain year using only the first coefficient. Rather, it is important to also take into account the effect of this variables by themselves and in the two-way interactions (Kam and Franzese, 2007; Jaccard, 2001). For example, if I wanted to estimate the probability of implementing a points system in country $i$ and year $j$, when this country has a decommodification value of 2, a left seats value of 3, and a fiscal crisis value of 4$^3$, and for simplicity’s sake every other variable has a value of 0, then, the estimation would be:

\[3\]

These values represent only a hypothetical example.
Taking these two important issues into consideration, and to make it easier to understand the results of the model, I estimated the probabilities of implementing a points system under different conditions, using the methodology described in King, Tomz, and Wittenberg (2000). Specifically, I estimated how the probability of implementing a points system changes when we move from the maximum to the minimum levels of the three variables of interest, when holding everything else at the mean. The results are:

<table>
<thead>
<tr>
<th></th>
<th>Liberal welfare state</th>
<th>Coorporatist welfare state</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fiscal Crisis</strong></td>
<td>0.96-0.99</td>
<td>0.66-0.67</td>
</tr>
<tr>
<td><strong>No crisis</strong></td>
<td>0.90-0.92</td>
<td>0.66-0.68</td>
</tr>
<tr>
<td><strong>Fiscal crisis</strong></td>
<td>0.66-0.67</td>
<td></td>
</tr>
<tr>
<td><strong>No crisis</strong></td>
<td>0.66-0.68</td>
<td></td>
</tr>
</tbody>
</table>

As we can see in Table 2.2, when a country has a liberal welfare state, a left of center government, and a fiscal crisis the probability of implementing a points system is extremely high, 0.98. This probability is higher when these three conditions are present than when only any combination of two occurs. For example, the probability that a liberal welfare state with a fiscal crisis and a right of center government implements a points system is lower, at 0.81. Out of the three variables, the type of welfare state seems to be the one with the largest impact in the probability of implementing a points system. In summary, Table 2.2 shows evidence supporting the theory presented in Chapter One. While any country would benefit from the implementation of a points system, it is more likely that liberal welfare states, and specially those with fiscal crisis and a left of center government implement this system. Regarding
the control variables, none of them are statistically significant, with the exception of $t^1$, $t^2$ and, $t^3$ indicating that running a survival model was appropriate and that the theories currently present in the literature failed to explain the why and when of points system implementation.

**Conclusions**

Using large-N statistical analysis I was able to reject the null hypothesis and show that the presence of three conditions -a left of center government, a liberal market economy, and fiscal deficit- increase the probability that a country to implement a selective immigration policy and that the theory presented earlier complements the current state of the literature on high-skilled immigration policy.

Furthermore, this analysis sheds light at the issue of policy convergence. While the factor endowment of a country is useful explaining the policy convergence we have observed in the last half of the XX Century regarding the liberalization of trade and financial markets, it is not nearly as effective for immigration. This contradicts the conventional knowledge in Economics introduced by Mundell in 1957 about the substitution between trade and the movement of other factors of production such as labor. It also shows that there has not been convergence in immigration policy, but divergence.

**Data Appendix**
Table 2.3: Statistical summary

<table>
<thead>
<tr>
<th>Variable</th>
<th>Observations</th>
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<th>Standard Deviation</th>
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<th>Maximum</th>
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<td>956/21</td>
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<td>-230448.2</td>
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<td>Left * Crisis</td>
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<td>1103.53</td>
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Chapter 3

Liberal Welfare States: United States and Canada

The implementation of selective immigration policies is more likely to occur in times of fiscal crisis, much more so in countries where the welfare state is not universal. In countries where the welfare state is universal, a high skilled immigrant is equally costly for the public coffer than a low skilled immigrant. As a consequence, there are less fiscal incentives to implement a policy that attracts more immigrants, regardless of their skills. Since the type of welfare state is a fundamental component of which immigration policy is selected it is important to differentiate between welfare systems.

In the academic literature, there are several categorizations of welfare states based on distinct aspects of the economy. The more widely known are four frameworks: The Power Resource Theory (Esping-Andersen, 1990), the Varieties of Capitalism (Hall
and Soskice, 2001), the Asset Based theory (Iversen, 2005), and the “Hybrid Theory”:1 Welfare States and Production Regimes (Huber and Stephens, 2001).

Liberal welfare states (LWS), are according to Esping-Andersen (1990) those that minimize decommodification, defined as “the degree to which individuals, or families, can uphold a socially acceptable standard of living independent of market participation” (Esping-Andersen, 1990, 37). Some of the LWS are Canada, the United States, and the United Kingdom.

There is an overlap between Liberal Welfare States and what Hall and Soskice (2001) call a Liberal Market Economy (LME) where “firms coordinate their activities through hierarchies and competitive market arrangements” (Hall and Soskice, 2001, 8). The typical LME are the United States, the United Kingdom, Canada, Ireland, and Australia.

Iversen (2005) categorizes welfare states according to the composition of people skills and their specificity. Countries that invest in more general (mobile) skills require less social protection than countries than invest in industry specific skills which are more vulnerable to external shocks (Iversen, 2005, 18). Some of the countries that invest more heavily in general skills are the United States, Ireland, and Canada.

Huber and Stephens (2001) try to bring together both the Varieties of Capitalism theory of production regimes and Esping-Andersen’s categorization of welfare states into a single classification of regimes. They divided the less generous welfare states into liberal welfare states (Canada, Ireland, United Kingdom, and the United States) and “antipodean wage earner” welfare states (Australia and New Zealand). Australia and New Zealand are included in a different category because of their history. Before the 1950s they had some of the most developed welfare systems, but since Labor was

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1While I call this theory hybrid, the authors do not give it that name
not in power for most of the period between 1950 and 1972, they went from “welfare state leaders” to “welfare state laggards” in twenty years (Huber and Stephens, 2001, 114). The outcome however, is a liberal welfare state, but one where wages and the arbitration system are determined by the state rather than markets (Huber and Stephens, 2001, 112).

All of these categorizations are based on different aspects of political economy, but the cluster of countries that fall on the less generous category, however we call it, is composed by the same set of countries. These regimes can be characterized as less “generous” welfare states in the sense that most people need to have employment to receive social welfare. These are welfare states based on the idea redistribution instead of providing insurance. In these countries the welfare state is not universal. The bulk of the recipients of social welfare are lower income groups, and the taxes to fund it come from higher income groups (Cusack and Beramendi, 2006), therefore, high-skilled/high-income immigrants will be net contributors to social welfare programs.

Those governments that want to maintain or expand social welfare in these countries are likely to favor high-skilled immigration in times of fiscal scarcity. But, which governments are those? And why don’t they always implement a points system? There have been previous studies linking different types of welfare state with different immigration policy. Bucken-Knapp (2009) explains how in Sweden, a Coordinated Market Economy in a Social Democratic welfare state, policy makers have been hesitant to liberalize skilled immigration at the request of employers facing shortages, because doing so might endanger the “Swedish model” of full employment. Menz (2009) argues that in LMEs where labor markets have been de-regulated, immigrants are allowed if they can cope with the conditions offered by those jobs, while CMEs see immigrants as a way to address some economic shortcomings, particularly in the service sector. As a consequence, he argues that “different systems of political econ-
omy will seek to influence governments to adopt labor migration policies that reflect the profile of immigrants deemed complementary to national production strategies” (Menz, 2009, 12).

This literature, however, does shed light on variation in immigration policies among countries with similar welfare state systems. I argue that in order to understand why countries implement points systems for immigration, we need to understand not only the type of welfare state, but also the economic and political situation the country is facing. Very similar political economies, such as the United States and Canada have divergent immigration policies. I argue that while their “production strategies”, using Menz’s terms, are alike, the divergence in how they deal with high-skilled immigration is due to the political and economic environment in which the immigration reforms were proposed and enacted. I will show evidence to support this argument by describing the fiscal and political situation of both countries when high-skilled immigration policies were proposed and enacted.

In this chapter I will describe the historical evolution of immigration policy in the United States and Canada. These two countries have similar welfare systems, but different immigration policies. My hypothesis is that this difference stems from the contrasting timing of fiscal crisis and government ideology.
3.1 The United States

The U.S. is one of the main countries of immigration. On aggregate numbers, the United States receives more immigrants than any other country, but only one fourth of the foreign born population in the country is highly skilled, a figure that pales when compared to Canada or Australia where approximately 38% of the immigrants are highly skilled (Belot and Hatton, 2008, 28).

The “pull” factor, or the economic attractiveness of the U.S. for high-skilled immigrants is not the problem. The Global Migration Barometer using information on GDP, access to capital, the ease of starting a business and several other variables of importance for high-skilled immigrants ranked the U.S. as the most attractive country (Australia was the third, and Canada the sixth). This study also ranked the accessibility for migrants, based on government policy towards immigration and the ease of hiring immigrants, among other issues, the U.S. ranked seventh, while Australia and Canada were ranked first and second respectively (Global Migration Barometer, 2008, 9).

The cause for this disconnect in the United States is its immigration policy. Unlike Australia and Canada, its current immigration policy does not include a “points system,” which has been proved more effective to attract high-skilled immigrants.

The purpose of this section is to use a process tracing methodology, defined as “the method [that] attempts to identify the intervening causal process - the causal chain and causal mechanism - between an independent variable (or variables) and the

\[2\] The proportion of the population that is foreign born, however, is higher in many other countries.

\[3\] In this case, I am using immigrant and foreign born as synonyms, though I am aware the figures might differ slightly when we take into account naturalization.

\[4\] http://corporate.westernunion.com/barometer.html
outcome of the dependent variable” (George and Bennet, 2005, 206), to describe the conditions under which the implementation of quasi-selective immigration policies succeeded, and the implementation of points systems failed, focusing particularly on times of economic crisis.

Early immigration policy

The Panic of 1817 and the “public charge” of immigrants

The crisis

The Panic of 1819 was the first depression in the United States. Before the War, the US imported most manufactured goods, particularly from Great Britain, and had a mostly agricultural economy. The War allowed domestic producers to develop a manufacturing industry given the impossibility of importing. However, when the war ended Americans began importing manufactured goods once again, fueled by inflation and the credit expansion from banks. At the same time, domestic producers found it almost impossible to compete with European industries. The number of banks increased dramatically, and so did credit. This boom helped establish the New York Stock Exchange in 1817, and with it the beginning of investment banking.

The banks started having problems to continue specie payment (payment in gold or silver), and in the Fall of 1818 the external debt for the Louisiana Purchase had to be paid in gold by the Bank of the United States. In face of this, the Bank started restricting lending in its branches which contracted the money supply and caused the “Panic of 1819” (Rothbard, 2007, 1-27).
Political Parties

By 1815 and 1816, the Democratic party machine of New York City, better known as Tammany Hall was in control of both the state legislature and the city councils, according to Myers (2005, 37). Tammany Hall relied heavily on immigrants: The “bosses” would help immigrants find jobs, pay for funerals and weddings, among other things in exchange for votes. This might explain why instead of outright restricting immigration (which would affect their votes), they decided instead to charge a tax. Also, if we consider “honest graft” to be some combination of welfare services and corruption, the Tammany bosses in City Council would benefit politically from having extra taxes to provide more “services” to their voters.

Selective immigration policy

Immigration policy at the national level didn’t really exist in 1819, and neither did welfare states as we know them today but according to Zolberg (2006, 11) local governments in New York City, where most immigrants arrived, authorized municipal


6 In “Plunkitt of Tammany Hall,” George W. Plunkitt differentiates between honest and dishonest graft, arguing Tammany bosses only get involved in honest graft. In chapter 1, he explains:

“My party’s in power in the city, and it’s goin’ to undertake a lot of public improvements. Well, I’m tipped off, say, that they’re going to lay out a new park at a certain place. I see my opportunity and I take it. I go to that place and I buy up all the land I can in the neighborhood. Then the board of this or that makes its plan public, and there is a rush to get my land, which nobody cared particular for before. Ain’t it perfectly honest to charge a good price and make a profit on my investment and foresight? Of course, it is. Well, that’s honest graft.”


7 Huber and Stephens (2001) cite the beginning of the development of welfare states in the early XX Century.
officials to demand a bond not exceeding $3,000 for each immigrant likely to become a “public charge,” and a head tax from passengers and crew to finance medical facilities.

During the XIX Century, the welfare state was minimal to non-existent. In other words, even less generous than the most liberal of welfare states today. This goes with accordance with the theory stated in chapter one. The least generous welfare states are the ones expected to implement selective, or in this case “proto selective” immigration policies.

While these measures cannot be considered policies that select immigrants on the basis of their skills, they are selective on the basis of fiscal burden. They shed light to the relationship between the welfare state and immigration. Immigrants that are a burden on the public coffers become a concern when the economy is in poor shape, and as a consequence governments try to limit the fiscal impact of immigration.

The “head tax” on immigrants was later declared unconstitutional by the United States Supreme Court, on the argument that many of the immigrants arriving in the Ports of New York and Boston -who also implemented head taxes- might not establish residency in those cities, and as a consequence, they might never become a public charge. Justice Grier said that “...the State should not be allowed to tax those who, on examination, are found not to be within this description...”

In the years to follow, there were very few changes to immigration policy either at the local or the national level, but movements in the business cycle were usually followed with movements in immigration flows in the same direction, with the notable exception of the Civil War years. After the Civil War, the relation between immigration flows and business cycles became even more evident.

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The Literacy Test

The Panic of 1893 and the Literacy Test

The crisis

The Panic of 1893 and the subsequent depression came at the climax of the struggle over the gold standard. In 1890, Congress passed the Sherman Silver Purchase Act. This bill allowed buying and coining silver in small quantities, and it increased the fears that the United States would leave the Gold Standard. This lead to a depletion of Treasury gold stocks. Moreover, external debt had to be paid in gold, so New York banks traded their silver reserves for gold buying Treasury notes that were paid in gold. This led the gold reserves below the accepted limits causing a panic (Hoffmann, 1956; Noyes, 1894; Rockoff, 1990).

One of the first alerts that a crisis was coming was the failure of the Philadelphia and Reading Railroad, and once the crisis had erupted the Northern Pacific Railway, the Union Pacific Railroad and the Atchison, Topeka & Santa Fe Railroad also went bankrupt. As a consequence, unemployment increased, which combined with the lost savings from the Panic meant several workers abandoned their houses because they could not afford their mortgages. All of these events had fiscal consequences. For one, the bankruptcy in the railroad industry reduced the levels of tax collection, and while a welfare state per se did not exist, there were several strikes asking for a relief job program, which increased the fiscal tension. The contraction lasted until 1897, according to the National Bureau of Economic Research.9

9http://www.nber.org/cycles.html
Political Parties

In 1896, the Democrats met in Chicago to nominate a presidential candidate. The economy was in terrible shape, so the Democrats were divided between those that supported the gold standard, leaded by President Cleveland that tried to repeal the Sherman Act, and those favoring a bimetallic standard. The latter won and nominated William Jennings Bryan, who promoted unlimited coinage of silver (Rockoff, 1990). He was supported by the Farmers’ alliance from the Midwest and West, but those regions were highly competitive since the pro-tariff platform of the Republican candidate, McKinley, appealed to rural voters and provided for an increase in government income, very necessary in the middle of a depression (Hiscox, 2001).

In 1896, there was also an electoral “realignment” in the United States, when the Democratic vote declined everywhere outside the South. The argument is that Democrats and Jennings Bryan populist platform alienated urban voters. The Republicans presented trade protectionism -specially tariffs- as a way to protect urban workers and argued the Democratic government had brought up the economic problem since Grover Cleveland won the 1892 election and used the Democratic majority to lower tariffs.\(^\text{10}\) According to Zolberg (2006, 221), the German and Irish immigrants were the urban sources of Democratic support, so the party maintained a positive stance towards immigration, and against the “Literacy Test”, even when labor groups started to oppose it (Higham, 1952). The pro-tariff Republican candidate, McKinley won the election and the discussions over immigration were left alone for some years.

By the time the contraction ended, the United States had a Republican government (McKinley as President with Republican majorities in both chambers), and

\(^{10}\)More information on this realignment can be read in Stonecash and Silina (2005)
a divided Democratic Party, making it politically hard to find enough support to approve the literacy test.

**Selective Immigration Policy**

The position of American businesses towards immigration started to change in the 1890s. Before, most employers considered cheap immigrant labor as necessary for their businesses to succeed, but following the Panic of 1893, the high unemployment levels and demand for relief made employers to start to support restricting immigration on the basis of literacy or financial means, so that only those who had the financial means to succeed would immigrate (Solomon, 1989). The literacy test was to be administered to adults to assess their education. It consisted of reading several sentences of the Constitution in any language, and some of the bills required that the immigrant be able to write the text he or she could read. Some bills contained a financial test, in which adult males had to have savings of 25 dollars, or approximately nine weeks of income in Europe, but they never received serious deliberation in Congress (Goldin, 1993, 3).

According to Heald (1953, 292), several business organizations in Boston, New York, Chicago, and St. Louis in 1893 and 1894 submitted proposals for a literacy test to the National Board of Trade. Labor also favored selective immigration after the crisis. The American Federation of Labor and the Knights of Labor, two of the main labor organizations of the time came out in favor of the literacy test in 1897, but had not done so before (Goldin, 1993, 4).

In 1894, the *Immigration Restriction League* was created with a focus on promoting the literacy test and leaded by Senator Henry Cabot Lodge. In 1895 the League wrote a bill requiring all European immigrants to be alphabetized upon admission in the United States. The bill was introduced in the Senate in December by Sen. Lodge
and in the House by Rep. McCall (both Republicans from Massachusetts). Another bill was being discussed at the same time, supported by Francis A. Walker. The Walker proposal was to impose a ten-dollar tax against each immigrant. The League considered that would discriminate against poor immigrants too clearly. Since many states included already literacy requirements for voting, the League considered the Literacy Test was a strategic way to slow down immigration without openly discriminating any group (Fairchild, 1917; Solomon, 1989). In the words of Senator Lodge: “This measure, if adopted, will exclude a large portion of the present immigration, and with few exceptions, will tell exclusively on the most undesirable portions of immigration alone.\textsuperscript{11}

The bill passed in the House, overwhelmingly, since the rural Democrats aligned with the Republicans. In the Senate, the Republicans waited until the election of William McKinley to vote on the Literacy Act, worried it might alienate the urban coalition of business and labor. The majority of the votes were in the cities, along with the bulk of immigrant voters. After McKinley was elected, the senate voted its own version of the test. The final conference report was approved by large portion of the House of Representatives (217-36), but received much less enthusiastic support in the Senate (34-31), because the new bill included the prohibition on temporary foreign migrant labor\textsuperscript{12} which affected the industrial interests, particularly in New England. As a consequence, even Senator Lodge voted against the final version. Even when the Republicans had majority after the 1896 election, they could not jeopardize losing

\textsuperscript{11}Senate, Committee on Immigration, \textit{Report no. 290 (to Accompany S. 2147)}, 54\textsuperscript{th}, April 2, 1896, 2.

\textsuperscript{12}The Corliss amendment purported to stop transitory immigration. Sen. Corliss, from Michigan, directly aimed his amendment to Canadian day laborers (Fairchild, 1917, 453).
industrial support. The bill was supported mostly by rural Senators, from states that benefited from the prohibition of migrant labor (Zolberg, 2006).

In March 2, 1897 outgoing President Grover Cleveland vetoed the bill\textsuperscript{13}, strongly opposing the Literacy Test under two arguments. First, he argued in favor of the \textit{status quo}. In his words:

\begin{quote}
It is said, however, that the quality of recent immigration is undesirable. The time is quite within recent memory when the same thing was said of immigrants who, with their descendants, are now numbered among our best citizens.
\end{quote}

And second, he made an argument on the basis of security, arguing low-skilled immigrants were less likely to be agitators:

\begin{quote}
\ldots, it is infinitely more safe to admit a hundred thousand immigrants who, though unable to read and write, seek among us only a home and opportunity to work than to admit one of those unruly agitators and enemies of governmental control who can not only read and write, but delights in arousing by inflammatory speech the illiterate and peacefully inclined to discontent and tumult. Violence and disorder do not originate with illiterate laborers.
\end{quote}

The House voted to override the veto on March 3, by a vote of 193 to 37, but the Senate was too divided, partly because of the efforts of industry groups such as the steamship companies, and no action was taken, so the bill died (Fairchild, 1917, 454).

The fact that both labor and capital were in favor of selective immigration goes against the idea that preferences towards the immigration can be explained by the factor endowment. While the returns to capital were expected to increase with a large flow of labor, and wages of native workers to decrease, as would be predicted by the Hecksher-Ohlin model, both factors formed a coalition in favor of the Literacy test.

\textsuperscript{13}The text of the veto is available in the American Presidency Project website: \url{http://www.presidency.ucsb.edu/ws/index.php?pid=70845}
Also, it is clear from President Cleveland’s veto that the support or opposition to the Literacy test was not based in fiscal concerns. There was no modern welfare state as we know it today\textsuperscript{14}, and the immigration restrictions that were proposed, including the Literacy test, were only superficially related to the fiscal situation of the country and more with security concerns and keeping the support of urban voters—both industry owners and immigrant voters—.

Furthermore, the realignment of 1896 favored Republican, partially because of the failure of the tariff decreases under Democratic President Cleveland. The increase in tariffs that followed had a much larger fiscal impact that the implementation of the Literacy Act would have had, particularly after the League decided to support it instead of the Walker proposal, which clearly had fiscal purposes. After the realignment in 1896, the Republican majority under McKinley approved the Dingley Tariff which increased general import duties (Hiscox, 2001, 55).

While my theory is that the least generous welfare states that are facing fiscal crises are more likely to implement selective immigration policies, in 1896-1897 the Republican Party had just regained control of the legislature, and the Democratic Party was divided between the urban voters in the North that opposed immigration restrictions and the rural voters in the South and Midwest which favored them.

During this period, the McKinley government did respond to the domestic economic crisis using international economic tools, but the chosen tool was tariff increases, and in specific the Dingley tariff. Trade restrictions were also politically more viable, since they benefited a larger Republican coalition: both the industrial groups in New England—that opposed the bill because of the Corliss Amendment—and the

\textsuperscript{14}Huber and Stephens (2001, 169) cite the establishment of “antipodean” welfare states after World War I. Egal and Sobel (2009, 162) explain that unlike some European countries the US lagged and did not enact the Social Security Act until 1935.
rural voters in the Midwest and the South—that supported immigration restrictions—were united in their support of tariff increases. In contrast, 1898 when the House of Representatives tried to consider a version of the Literacy test that had been recently approved in the Senate, there were not enough votes to even put the bill to consideration (101 votes in favor of the consideration vs. 104 against) (Goldin, 1993, 5). This sheds light to the political multidimensionality of immigration versus trade.

The implementation of the Literacy Test

The crisis

In the period during which the Literacy Test was in the public debate there were two financial panics, the first in 1907 and the second in 1914.

In 1906, some evidence started to emerge that indicated that consumers were willing to take risks in real estate and other speculative activities, as a consequence of the improvement of stocks that started in 1904 and reached its highest point in 1906. Then a downward movement started in January of 1907, and stocks reached their lowest point during the panic, in October. According to Johnson (1908), the causes of the crisis were the exhaustion of capital funds by wars and financial speculation, and was particularly acute in 1907 because banking institutions had made “unduly” advances on securities, and had not increased their cash reserves (Johnson, 1908, 461). This crisis was the largest one, before the Great Depression.15

15In 1914, the fear that the United States would abandon the Gold Standard pushed the world value of the dollar. As a consequence, foreigners who owned bonds and stocks worth billions of dollars, tried to sell them to raise dollars and demand gold. The crisis started in July 27 because the exchange rate increased four cents above the gold export point. On July 31, the Treasury Secretary McAdoo asked the New York Stock Exchange to close, so that US stocks couldn’t be sold and bank reserves of gold wouldn’t be endangered. In August, McAdoo invoked the Aldrich-Vreeland Act, allowing banks to create currency. That way, a bank facing a sudden loss of currency could create bank notes to meet demand. The Stock Exchange was opened on December 12. This allowed the
Parties

The economic crises of 1904, 1907-1908, and 1914 brought a great interest on the economic consequences of immigration, particularly among labor groups. Interestingly, the economic recovery that followed each of these recessions didn’t reduce the public attention towards selective immigration. According to Lane (1984) several factors increased the support for selective immigration in the Wilson presidency among labor groups and the Democratic party, which had been pro immigration before. Among those are the unemployment and wage decreases that ensued the recessions, which made labor groups doubt whether the economy could accommodate more workers. Additionally, the possibility of American involvement in World War I generated arguments favoring the literacy test (Lane, 1984).

The Republicans, supported still by the Immigration Restriction League and Senator Cabot Lodge based their arguments more on anthropological and ethnical arguments. In 1907, President Roosevelt created a commission of Senators, Representatives and public experts to analyze immigration. The board included Senators Dillingham, Lodge, and Lattimer and Representatives Howell, Bennett, and Burnett. The presence of Lodge assured that the Immigration Restriction League could supervise the *Dillingham Commission*. After much bickering in the Commission, on December 15 of 1915 the commission answered in favor of the literacy test. The arguments, however, had less to do with economics and more with the “moral superiority” of certain races. According to Solomon (1989), the argument was that new immigrants (from Ireland, and Southern and Eastern Europe) “came to America only to better themselves economically in contrast to their predecessors, who sought country to avoid a panic as large as the one in 1907, along with the existence of the Federal Reserve, created the year before (Silber, 2007).
political and religious freedom” (Solomon, 1989, 198). Their materialistic ambitions, it was argued, proved the thesis of their moral inferiority.

The Dillingham Commission’s report was significant in providing support for the literacy test, both for Democrats and Republicans, in the last (and successful) attempt to implement a literacy test for immigrants in 1915.

**Selective immigration policy**

There were many attempts to implement the Literacy Test after the Cleveland veto, as we can see on table 3.1. In the 1900s there were even some votes to remove the Literacy Test in 1906, before the Panic of 1907. The second veto to the Literacy Test came from President Taft in September 14, 1913, as a response to the Burnett Literacy Test Bill with a very short veto message:

“I cannot make up my mind to sign a bill which in its chief provision violates a principle that ought, in my opinion, to be upheld in dealing with our immigration. I refer to the literacy test. For the reasons stated in Secretary’s Nagel letter to me, I cannot approve that test”\(^{16}\)

The letter from Charles Nagel, the Secretary of Commerce and Labor, argued that the Literacy test would not only restrict the immigration of “undesirables” but also of desirable individuals that because of lack of opportunities in their countries are not literate, but that given the chance to learn how to read and write would do it.\(^{17}\)

Congress attempted to pass the bill over the veto, before the new Congress and the new President -Woodrow Wilson-took office. The attempt was successful in the

\(^{16}\)Abbot (1924, 211)

\(^{17}\)The text of the letter is available at Abbot (1924).
Senate where the outgoing Republican majority and seven Democrats supported it, but failed in the House by five votes (Fairchild, 1917).

Less than two years after President Wilson took office, Congress passed a bill very similar to the one that was vetoed two years before. This bill was successfully passed in both the Senate -50 to 7- and the House -227 to 94-, but was vetoed by President Wilson, who had received significant electoral support from immigrant groups (Fairchild, 1917, 457). His response was similar to the previous veto messages related to the Literacy Test, and he was hesitant about selecting immigrants, not reducing the flows. In his words:

“The literacy test and the tests and restrictions which accompany it constitute an even more radical change in the policy of the Nation. Hitherto we have generously kept our doors open to all who were not unfitted by reason of disease or incapacity for self-support or such personal records and antecedents as were likely to make them a menace to our peace and order or to the wholesome and essential relationships of life. In this bill it is proposed to turn away from tests of character and of quality and impose tests which exclude and restrict; for the new tests here embodied are not tests of quality or of character or of personal fitness, but tests of opportunity. Those who come seeking opportunity are not to be admitted unless they have already had one of the chief of the opportunities they seek, the opportunity of education. The object of such provisions is restriction, not selection.”

While according to Fairchild (1917, 458) the bill had enough support in the Senate to override the veto, but it was never given the opportunity because the House failed to override the veto-261 to 136-. Thirteen Democrats that had originally voted in favor of the Literacy Test changed their vote. Joseph Patten, a lobbyist for the Immigration Restriction League argued that the secretary of the President, Joseph Tumulty had

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“dangled” a possible federal judge appointment before tho of these Congressmen and offered some other patronage deals for the rest (Zeidel, 1986, 332).

Two years later, a similar bill was proposed-known as the Burnett bill-by both the Senate and the House, now with the approval stamp of the Dillingham Commission. Furthermore, with World War I well underway, some Republicans-Patten, amongst them-argued the Literacy Test was necessary because the end of the war in Europe would bring an increase in immigration flows (Fairchild, 1917; Lane, 1984; Zeidel, 1986). That argument, however, was not the one that convinced the Democrats that had voted against the bill two years before to finally support the bill, but the effects of the depression of 1914, when the country was barely recovering from the crisis in 1907 and 1914. (Lane, 1984). This is consistent with the hypothesis presented in the theory of chapter 1.

The debate began on December 11, 1916. The opposition to the bill came from Democrats who focused on sustaining the Wilson veto. Those in favor of the Literacy Test were able to get a voice vote, instead of a roll-call. That way, the opponents of the bill could not measure the likelihood of sustaining the veto. The Burnett bill was passed on January 8, 1917, and twenty-one days after, President Wilson vetoed the bill. In his veto message, close to the last one, he argued that “Test of quality of purpose cannot be objected on principle, but tests of opportunity surely may be” (Abbot, 1924, 215),(Zeidel, 1986, 340).

The veto was overridden in the first week after, receiving support from both parties. According to Goldin (1993), while the Democratic Party had majorities in both the Senate and the House, different legislators had been elected in the election of 1916 and many of the opponents were “voted out of office.” If the vote had taken place before the election it would not have passed over the veto (Goldin, 1993, 9).
The supporters of the bill came from the urban-northeastern states (the Immigration Restriction League was created in Boston) and the Southern states where anti-foreign sentiments grew. With the exception of Louisiana, the Southern states where united in favor of the Literacy Test, and only parts of the urban Northeast and Midwest were against it. According to Goldin (1993, 23-24) the main determinants of the vote were the percentage of foreign workers in the district and the average wage. Richer and more urban districts were more likely to oppose the test. This explains the regional patterns of support.
### Table 3.1: Chronology of the Literacy Test

<table>
<thead>
<tr>
<th>Date</th>
<th>Branch of Government</th>
<th>Party</th>
<th>Vote (Yea-Nay-Abs.)</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>2/9/97</td>
<td>House</td>
<td>Republican majority</td>
<td>217-36-102</td>
<td>Affirmative vote on bill</td>
</tr>
<tr>
<td>2/17/97</td>
<td>Senate</td>
<td>Republican majority</td>
<td>34-31-25</td>
<td>Affirmative vote on bill</td>
</tr>
<tr>
<td>3/2/97</td>
<td>President Cleveland</td>
<td>Democrat</td>
<td>veto</td>
<td></td>
</tr>
<tr>
<td>3/3/97</td>
<td>House</td>
<td>Republican majority</td>
<td>195-37-123</td>
<td>Overrides presidential veto</td>
</tr>
<tr>
<td>3/3/97</td>
<td>Senate</td>
<td>Republican majority</td>
<td>45-28-16</td>
<td>Takes no action, bill dies</td>
</tr>
<tr>
<td>1/17/98</td>
<td>Senate</td>
<td>Republican majority</td>
<td>101-104-150</td>
<td>Negative vote on bill consideration</td>
</tr>
<tr>
<td>5/27/02</td>
<td>House</td>
<td>Republican majority</td>
<td>No vote found</td>
<td>Affirmative vote on bill, literacy test dropped in House-Senate conference</td>
</tr>
<tr>
<td>6/25/06</td>
<td>House</td>
<td>Republican majority</td>
<td>128-116</td>
<td>Vote to remove literacy test from bill</td>
</tr>
<tr>
<td>4/19/12</td>
<td>Senate</td>
<td>Republican majority</td>
<td>9-56-30</td>
<td>Vote to remove literacy test from bill</td>
</tr>
<tr>
<td>12/14/98</td>
<td>House</td>
<td>Republican majority</td>
<td>179-52</td>
<td>Affirmative vote on bill</td>
</tr>
<tr>
<td>2/14/13</td>
<td>President Taft</td>
<td>Republican</td>
<td>veto</td>
<td></td>
</tr>
<tr>
<td>2/18/13</td>
<td>Senate</td>
<td>Republican majority</td>
<td>72-18</td>
<td>Affirmative vote to override veto</td>
</tr>
<tr>
<td>2/19/13</td>
<td>House</td>
<td>Democratic majority</td>
<td>213-114-54</td>
<td>Fails to override</td>
</tr>
<tr>
<td>1/2/15</td>
<td>Senate</td>
<td>Democratic majority</td>
<td>50-7-39</td>
<td>Affirmative vote on bill</td>
</tr>
<tr>
<td>1/15/15</td>
<td>House</td>
<td>Democratic majority</td>
<td>227-94-103</td>
<td>Affirmative vote on conference report of bill</td>
</tr>
<tr>
<td>1/28/15</td>
<td>President Wilson</td>
<td>Democrat</td>
<td>veto</td>
<td></td>
</tr>
<tr>
<td>2/4/15</td>
<td>House</td>
<td>Democratic majority</td>
<td>261-136-26</td>
<td>Fails to override</td>
</tr>
<tr>
<td>3/30/16</td>
<td>House</td>
<td>Democratic majority</td>
<td>307-87-39</td>
<td>Affirmative vote on bill</td>
</tr>
<tr>
<td>12/14/16</td>
<td>Senate</td>
<td>Democratic majority</td>
<td>64-7-25</td>
<td>Affirmative vote on bill</td>
</tr>
<tr>
<td>1/29/17</td>
<td>President Wilson</td>
<td>Democrat</td>
<td>veto</td>
<td></td>
</tr>
<tr>
<td>2/1/17</td>
<td>House</td>
<td>Democratic majority</td>
<td>287-106-40</td>
<td>Overrides veto</td>
</tr>
<tr>
<td>2/5/17</td>
<td>Senate</td>
<td>Democratic majority</td>
<td>62-19-5</td>
<td>Overrides veto</td>
</tr>
</tbody>
</table>

Information comes from (Goldin, 1993, 4), with the exception of the Party information which comes from the United States Congress and the Senate veto override in 1913, missing from Goldin’s table that comes from the New York Times article, published on February 18, 1913 titled “Senate Overrides Immigration Veto.”
Points systems

Immigration Act of 1990

During most of the XX Century, immigration policy reforms were based mostly on racial considerations, and not the fiscal impact of immigration or the skill level of the immigrants. In 1921, national origins quotas were implemented, but by the 1960s the United States was in the middle of the civil rights movement, and a policy based on race was becoming harder to defend. In 1963, President Kennedy introduced legislation to eliminate, in phases, the national origin quotas. This proposal faced opposition in Congress and no actions were taken at the time. In 1964, Congressmen Emanuel Celler, a Democrat from New York and Phillip Hart, a Democrat from Michigan proposed a bill that would become the 1965 Immigration and Nationality Act. This bill eliminated the national origin quotas and created a family based system (Gimpel and Edwards, 1999; Zolberg, 2006).

The crisis

In 1989, the year George H.W. Bush’s presidency started, the fiscal deficit in the United States was 2.73% of the GDP, and in the same year the federal budget debt was $2.8 trillion dollars, as much as three times larger than in 1980. While during the Republican National Convention, when he was elected as candidate, he famously said:

20http://research.stlouisfed.org/publications/review/93/07/9307pp.dat

21http://millercenter.org/academic/americanpresident/bush/essays/biography/4
“Congress will push me to raise taxes, and I’ll say no, and they’ll push, and I’ll say no, and they’ll push again, and I’ll say to them, “Read my lips: no new taxes.””

This proved harder since he had to maintain a restricted agenda in order to maintain the fiscal deficit in a manageable level. During the budget negotiations for the 1991 budget, in 1990, the President had to renege on his promise on June 29, 1990. During a press conference, he declared that since the deficit was larger than usual, tough decisions had to be made to avoid “draconian cuts in defense, student grants, and a wide array of other necessary domestic services.” When he was questioned by the press about whether he was breaking a promise he made to voters, he responded:

“I’d say I take a look at a new situation. I see an enormous deficit. I see a savings and loan problem out there that has to be resolved. And like Abraham Lincoln said, I’ll think anew. I’m not violating or getting away from my fundamental conviction on taxes, anything of that nature, not in the least. But what I’ve said is on the table, and let’s see where we go. But we’ve got a very important national problem, and I think the President owes the people his judgment at the moment he has to address that problem. And that’s exactly what I’m trying to do.

Look, I knew I’d catch some flak on this decision – just those two words – but I’ve got to do what I think is right, and then I’ll ask the people for support. But more important than posturing now or even negotiating is the result. Do we continue to provide jobs for the American people, and do we continue to provide economic growth, and do we try to stop saddling the generations on the way up, the young people, with absolutely unacceptable deficits?”

At the same time this budget negotiations were occurring, the country was wrapped in the “Savings and Loans” (S & L) crisis. Inflation rose during the War in Vietnam and, as a consequence, interest rates rose until the early 1980s. Also, there was a

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deregulation of the financial institutions at the federal and local level, so these institutions engaged in riskier investments. Furthermore, in 1982 real state investors received tax breaks that benefited commercial real estate investments, even if they were high risk. In 1986, however, these tax breaks were withdrawn. As a consequence, in the end of 1986 the Federal Savings and Loans Insurance Corporation (FSLIC) was declared insolvent. In August of 1987, the Financing Corporation (FICO) was created by Congress to issue long term bonds to fund the FSLIC. By 1989, when the legislature started talking about points systems, FICO had only obtained 8.2 billion dollars, which was insufficient to deal with the problems in the S & L industry. So finally, in August of 1989, the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) was approved in Congress to start taxpayers’ involvement in the solution of the crisis. FIRREA also created the “Resolution Trust Corporation” to resolve troubled “thrifts”, originally between 1989 and 1992, but it was extended until 1995 (Curry and Shibut, 2000; Kane, 1992).

Curry and Shibut (2000) calculate that the total cost of the S & L crisis for taxpayers was 91.3 billion dollars (Curry and Shibut, 2000, 29), but by the time the debate on immigration started in Congress in 1989, 296 savings associations insured by the FSLIC had be declared insolvent by the FSLIC. According to information from the same authors, by 1989 the assets lost were (Curry and Shibut, 2000, 27):

<table>
<thead>
<tr>
<th>Year</th>
<th>Number</th>
<th>Assets (millions of dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1986</td>
<td>54</td>
<td>16,264</td>
</tr>
<tr>
<td>1987</td>
<td>48</td>
<td>11,270</td>
</tr>
<tr>
<td>1988</td>
<td>185</td>
<td>96,760</td>
</tr>
<tr>
<td>1989</td>
<td>9</td>
<td>725</td>
</tr>
<tr>
<td>Total</td>
<td>296</td>
<td>125,019</td>
</tr>
</tbody>
</table>

Table 3.2: Savings & Loans Crisis: Insolvent associations insured by the FSLIC
Parties

The proposal to implement points systems came months after George H.W. Bush was sworn in as President. The 1988 came after a steady decline in Democratic support that started in 1980 and continued during the Reagan Presidency. This was also the first election in fifty years in which voters partisan identifications were evenly divided before the election (Shanks and Miller, 1991, 131).

While this seems to point out at a Republican President with very strong support and no problems winning the election, he didn’t not perform as well as expected. According to Shanks and Miller (1991, 131), Bush’s margin of victory was 40% less than Reagan’s four year before, even though Bush had the advantages brought by a strong incumbent from his party, and a drop in Democratic identifications.

Some of the hypotheses about the determinants of Republican vote in 1988 have to do with “patriotism” (Sullivan, Fried, and Dietz, 1992), and the promise not to increase taxes made by Bush during a time of economic distress (Shanks and Miller, 1991), particularly because of the aforementioned S & L crisis, among other considerations. Bush received 53% of the popular vote, while Dukakis got 45.6%, however, the Democrats hold a plurality of 55% in the Senate and 60% in the House.

This relatively weak position was somewhat dangerous during times of fiscal crisis, which might explain why retracting from the campaign promise of not raising taxes, which could not be sustained, was so controversial, and so damaging in the 1992 campaign.

Selective immigration policy

In 1989, some senators who had become dissatisfied with the result of the elimination of national origin quotas in the 1960s started working on a bill. Their concern
was that the family based system that was implemented then favored Latin American
immigrants, and affected immigrants from other nations, such as Ireland. Furth-er-
more, the immigration policy didn’t reflect the economic needs of the United States
(Biden, 1989). The bill was introduced by Senators Edward Kennedy, Democrat from
Massachusetts, Alfonse D’Amato, Republican from New York, Christopher Dodd,
Democrat from Connecticut, Daniel Patrick Moynihan, Democrat from New York,
and Alan Simpson, Republican from Wyoming on February 7, 1989.

In Kennedy’s words, the system was rigid and several nations were “shortchanged”
by the system.24. This bill created a new category: “independent immigrants” for
people with skills scarce in the United States. These 54,000 additional visas would be
assigned through a point allocation system, citing the successful examples of Australia
and Canada (the only countries that implemented point systems before 1989). The
allocation that was proposed is the following (Biden, 1989, 5):25

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Maximum points</th>
<th>Percent of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>10 pts. for age 21-35</td>
<td>10</td>
<td>13</td>
</tr>
<tr>
<td>5 pts. 36-45</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Education:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>10 pts. for high school</td>
<td>25</td>
<td>33</td>
</tr>
<tr>
<td>10 pts. for BA</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5 pts. for graduate school</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Occupational demand</td>
<td>20</td>
<td>27</td>
</tr>
<tr>
<td>Occupational training or work experience</td>
<td>20</td>
<td>27</td>
</tr>
<tr>
<td>Total</td>
<td>75</td>
<td>100</td>
</tr>
</tbody>
</table>

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25 Minimum points needed 75
According to Gimpel and Edwards (1999), several amendments were made in committee. The annual visa limit for independent immigrants was set at 120,000 and the English language stimulation was removed because of the pressure of Hispanic and Asian groups, and because in the media it received the treatment of a racially based policy instead of an economically based one, and because it received public support from some questionable interest groups, such as the *Pioneer Fund* whose goal was to popularize “applied genetics.”

Furthermore, some senators opposed the English requirement arguing that their ancestors came here without knowing the language, such as Senator Leahy, a Democrat from Vermont, who argued that he could not be objective since “his grandparents immigrated from Italy without knowing English and his wife was French and didn’t know English when she arrived”.

At the end, the English requirement proved so controversial that the only votes against deleting the English language requirements were Senators Simpson and Thurmond.

On July 13, the bill was voted in the floor with the amendment mentioned above. It was passed by 81 votes in favor, 17 against and 2 abstentions. The votes didn’t follow clear partisan lines:

<table>
<thead>
<tr>
<th>Party</th>
<th>Aye</th>
<th>Nay</th>
<th>NV</th>
</tr>
</thead>
<tbody>
<tr>
<td>Democratic</td>
<td>41</td>
<td>14</td>
<td>2</td>
</tr>
<tr>
<td>Republican</td>
<td>40</td>
<td>3</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>81</td>
<td>17</td>
<td>2</td>
</tr>
</tbody>
</table>

---

26 *English Issue Hides immigration, population agenda*, Mesa Tribune, October 21, 1988

27 *Official English attracting bizarre followers*, Mesa Tribune, October 22, 1988

The votes cannot be predicted with high confidence levels on the basis of geography. The senators that voted nay were: Breaux (D-LA), Bumpers (D-AR), Byrd (D-WV), Conrad (D-ND), Cranston (D-CA), Exon (D-NE), Ford (D-KY), Gore (D-TN), Heflin (D-AL), Helms (R-NC), Hollings (D-SC), Inouye (D-HI), Mikulski (D-MD), Reid (D-NV), Rudman (R-NH), Shelby (D-AL), and Wilson (R-CA).²⁹

The House’s version of the legislation was introduced March 19, 1990. The sponsors were Bruce Morrison, Democrat from Connecticut, and 32 other representatives from several states and different parties. There were several differences between the House and Senate proposals, allowing 100,000 more visas than the Kennedy-Simpson bill would. Furthermore, instead of a points system, it established 65,000 temporary worker visas (H1-B) with a maximum six-year stay (Usdansky and Espenshade, 2000).

However, Rep. Eliot Engel, Democrat from New York, introduced a bill (H.R. 4230) in a few days before (March 8), in order to establish a preference immigration point system based on: age; occupational demand; occupational training and work experience; prearranged U.S. employment; education; and knowledge of U.S. government and history. The amendment was co-sponsored by Reps. Martin Fros, a Democrat from Texas and Stephen Solarz, also a Democrat from New York. The bill was not voted, but sent to the House Committee on Judiciary on March 8 and then on March 14 to the Subcommittee on Immigration Refugees and International Law and never reached the floor.³⁰

In contrast with the Senate, one of the main debates in the floor in the House was about the federal government reimbursing states for the costs of immigration

²⁹http://thomas.loc.gov/
³⁰http://thomas.loc.gov/cgi-bin/bdquery/z?d101:HR04230:@@0L&summ2=m#status
programs, a fiscal debate. Rep. Lamar Smith, a Republican from Texas, introduced an amendment to reimburse the costs for states (H.AMDT 803). He submitted the proposal on October 2, 1990 and it was voted the same day, with the following outcome:\footnote{http://clerk.house.gov/evs/1990/roll401.xml}

\begin{table}[h]
\centering
\begin{tabular}{|l|c|c|c|}
\hline
Party & Aye & Nay & NV \\
\hline
Democratic & 13 & 238 & 6 \\
Republican & 40 & 130 & 6 \\
Total & 53 & 358 & 12 \\
\hline
\end{tabular}
\caption{Distribution of votes for H.AMDT. 803}
\end{table}

According to Gimpel and Edwards (1999, 190) these occurred parallel to the budget negotiations, in which President Bush was facing a blockade from House Democrats, since the President had just reneged on his campaign promise of “no new taxes” so Republicans like Smith were worried of the costs of a new spending initiative in that environment. The final version of the bill was voted on October 3, 1990. The votes were:\footnote{http://clerk.house.gov/evs/1990/roll406.xml}

\begin{table}[h]
\centering
\begin{tabular}{|l|c|c|c|}
\hline
Party & Aye & Nay & NV \\
\hline
Democratic & 186 & 65 & 6 \\
Republican & 45 & 127 & 4 \\
Total & 231 & 192 & 10 \\
\hline
\end{tabular}
\caption{Distribution of votes for H.R. 4300}
\end{table}

The House bill was significantly different from the Senate bill. The first one didn’t include a points system, and granted 800,000 visas annually, instead of the 630,000

\footnote{http://clerk.house.gov/evs/1990/roll1406.xml}
in the Senate bill. Moreover, the President publicly expressed he preferred the Senate version, while the media favored the House bill (Zolberg, 2006, 379).

The House changed the bill number from H.R. 4300 to S. 358 in order for the bill to be able to go to a joint Senate-House conference to reconcile the two versions. The Senate reached a compromise with no points system, and annual number of visas set at 700,000 of which 520,000 are family based. While this seems closer to the House version, Sen. Simpson, the main negotiator from the Senate in the conference, however got an important concession: special visas for those willing to invest over one million dollars in a new company and hire at least 10 Americans (Gimpel and Edwards, 1999, 193)

The new version of the bill was approved on October 27, and the vote was distributed as follows:33

Table 3.7: Distribution of votes on the Conference Report S 358 in the Senate

<table>
<thead>
<tr>
<th>Party</th>
<th>Aye</th>
<th>Nay</th>
<th>NV</th>
</tr>
</thead>
<tbody>
<tr>
<td>Democratic</td>
<td>51</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>Republican</td>
<td>38</td>
<td>5</td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td>89</td>
<td>8</td>
<td>3</td>
</tr>
</tbody>
</table>

In the House the votes were:34

Table 3.8: Distribution of votes on the Conference Report S 358 in the House

<table>
<thead>
<tr>
<th>Party</th>
<th>Aye</th>
<th>Nay</th>
<th>NV</th>
</tr>
</thead>
<tbody>
<tr>
<td>Democratic</td>
<td>171</td>
<td>54</td>
<td>32</td>
</tr>
<tr>
<td>Republican</td>
<td>93</td>
<td>64</td>
<td>18</td>
</tr>
<tr>
<td>Total</td>
<td>264</td>
<td>118</td>
<td>50</td>
</tr>
</tbody>
</table>

33http://www.senate.gov/

In both cases, it seems clear the bill got majoritarian support from both parties, with less support in the House. This evidence indicates that high-skilled immigration was not sold as a partisan issue in 1989-1990. The fact that the two main sponsors of the bill in the Senate were Kennedy and Simpson strengthens this argument. While the attempt to implement a point system failed, at that point, at least, it seemed that the creation of H1-B visas was seen as an alternative, albeit less transforming of the status quo, to a points system.

The 1990 Immigration reform was clearly being discuss in a time when, fiscally, high-skilled immigrants were more desirable, but when politically a more selective immigration system, such as a points system, was politically inviable. As a consequence, a “second best” choice was implemented: a temporary worker program for high-skilled immigrants. This informs our understanding of when such policies take place, in many cases, after an attempt to implement a “points system” failed for political reasons.

**Comprehensive Immigration Reform bill of 2007**

**The crisis**

In 2001, when the George W. Bush presidency started, the United States had a balanced fiscal budget. Between 2001 and 2007, however, the effective tax rate in the country went from 39% to 35%\(^{35}\), partly due to a series of tax cuts. Between 2001 and 2006 the tax cuts had a direct cost of $860 billion, and an effect on the deficit of $929 billion (Price, 2005). Along with the tax reductions, the increased defense spending due o the wars in Afghanistan and Iraq, caused fiscal pressure. However, it

\(^{35}\)http://www.taxpolicycenter.org/taxfacts/displayafact.cfm?Docid=213
was seen by some more as a sign of deepening financial globalization, than a cause of concern.\textsuperscript{36}

By 2007, there were signs that a fiscal and financial crisis could come in the United States, but there was not generalized concern. According to Reinhart and Rogoff (2009), former Chairman of the Fed, Alan Greenspan, argued the U.S. current account deficit, caused by sustained United States’ borrowing from other countries, that reached over 6.5\% of the GDP in 2006 was not a primary risk factor “simply a reflection of a broader trend toward global financial deepening that was allowing countries to sustain much larger current account deficits and surpluses than in the past” (Reinhart and Rogoff, 2009, 208-209). They also contend that among academics and policy economists there was also a wide gamut of opinions about whether the current account deficit was sustainable. In parallel, there was also a policy debate on whether the explosion of housing prices was a cause of concern.

By the time the immigration debate on points system took place, in June of 2007, the consensus opinion seemed to be that there were no big reasons to worry. In April 2007, the International Monetary Fund concluded that “risks to the global economy had become extremely low and that, for the moment, there were no great worries” (Reinhart and Rogoff, 2009, 214).

As a conclusion, while \textit{ex post}, the economy seemed pretty fragile at the time of the immigration debates in June of 2007, at the time there didn’t seem to be a generalized sense of urgency about the economy, and the priority at the time was not to avoid an economic crisis. As a consequence, the fiscal impact of the implementation of a points system would not resonate as much as in the midst of a crisis, where the

\textsuperscript{36}For an outstanding description of the factors that led to the 2007 financial crisis, see Reinhart and Rogoff (2009).
consensus is that something needs to be done to ameliorate the deficits.

**Parties**

The immigration debate came with a brand new Congress, the 100th after the midterm election of 2006. This was the first time in twelve years that both the Senate and the House had Democratic majorities.\(^{37}\)

In the Senate, 30% of the senators were newly elected in that election, and while the Democrats had majority, it wasn’t very strong, because it relied on two independents, and it was far from being able to beat a filibuster. There were 49 Democratic seats, 49 Republican, and 2 independents-Lieberman (CT) and Sanders (VT)- who voted with the Democrats.\(^{38}\).

In the House, only 11% of the Representatives were newly elected members-fifty seats- and again the Democratic majoritarian status was stronger than in the Senate, but it was still fragile and the House was heavily divided. There were 233 Democrats and 202 Republican members of the House in the 100th Congress.\(^{39}\)

In conclusion, the political environment in 2007 was characterized by divided government, which makes policy reforms difficult in general; a President with relatively low approval ratings; an opposition which was not strong enough to defeat a filibuster or overcome presidential vetoes; and a very competitive presidential campaign was about to start. Politically, this does not seem to be the optimal environment for a


\(^{39}\) Same source as the Senate data
controversial immigration reform that would move the status quo from a family based policy to a points system.

Selective immigration policy

In June 18, 2007 Senators Edward Kennedy, Democrat from Massachusetts, and Arlen Specter, Republican from Pennsylvania, proposed an immigration reform bill (S. 1639) that included the creation of a points system for immigration in the United States in section 502 of the bill, which is titled “Increasing American Competitiveness Through a Merit-Based Evaluation System for Immigrants.” The proposed allocation of points can be seen in Tables 3.9 and 3.10 (Wasem and Haddal, 2007, 30-31):
Table 3.9: Proposed point allocation in S. 1639

<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
<th>Points</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Employment</strong></td>
<td></td>
<td>Max. 47</td>
</tr>
<tr>
<td>Occupation</td>
<td>U.S. employment in</td>
<td>20</td>
</tr>
<tr>
<td></td>
<td>Specialty Occupation (Dep. of Labor definition)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>U.S. employment in High Demand Occupation (BLS' largest 10-yr job growth, top 30)</td>
<td>16</td>
</tr>
<tr>
<td>National interest / employer</td>
<td>U.S. employment in STEM or health occ., current for at least 1 year</td>
<td>8</td>
</tr>
<tr>
<td>Employer endorsement</td>
<td>A U.S. employer willing to pay</td>
<td>6</td>
</tr>
<tr>
<td>Experience</td>
<td>Years of work for a U.S. firm</td>
<td>2 per year (max. 10 points)</td>
</tr>
<tr>
<td>Age of worker</td>
<td>Worker’s age: 25-39</td>
<td>3</td>
</tr>
<tr>
<td><strong>Education</strong></td>
<td></td>
<td>Max. 28</td>
</tr>
<tr>
<td>Terminal degree</td>
<td>MD., M.B.A., Graduate degree</td>
<td>20</td>
</tr>
<tr>
<td></td>
<td>Bachelors degree</td>
<td>16</td>
</tr>
<tr>
<td></td>
<td>Associates degree</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td>High School diploma or GED</td>
<td>6</td>
</tr>
<tr>
<td></td>
<td>Vocational Education program</td>
<td>5</td>
</tr>
<tr>
<td>Bonus points</td>
<td>Completed Dep. of Labor Registered Apprenticeship, STEM Associate degree and above</td>
<td>8</td>
</tr>
<tr>
<td><strong>English &amp; Civics</strong></td>
<td></td>
<td>Max. 15</td>
</tr>
<tr>
<td>Skill level</td>
<td>Native speaker of English or TOEFL score of 75 or +</td>
<td>15</td>
</tr>
<tr>
<td></td>
<td>TOEFL score of 60-74</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td>Pass USCIS Citizenship Tests in English and Civics</td>
<td>6</td>
</tr>
<tr>
<td><strong>Extended Family</strong></td>
<td></td>
<td>Max. 10</td>
</tr>
<tr>
<td>Scores applied i threshold of 55</td>
<td>Adult son or daughter of U.S. citizen</td>
<td>8</td>
</tr>
<tr>
<td>is passed in above categories</td>
<td>Adult son or daughter of legal permanent resident (LPR)</td>
<td>6</td>
</tr>
<tr>
<td></td>
<td>Sibling of USC or LPR</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td>If had applied for a family visa after May 1, 2005</td>
<td>2</td>
</tr>
<tr>
<td>Category</td>
<td>Description</td>
<td>Max. Points</td>
</tr>
<tr>
<td>--------------------------------</td>
<td>-----------------------------------------------------------------------------</td>
<td>-------------</td>
</tr>
<tr>
<td>Agriculture national interest</td>
<td>Worked in agriculture for 3 yrs., 150 days per year.</td>
<td>21</td>
</tr>
<tr>
<td></td>
<td>Worked in agriculture for 4 yrs., (150 days for 3 yrs., 100 days for 1 year)</td>
<td>23</td>
</tr>
<tr>
<td></td>
<td>Worked in agriculture for 5 years, 100 days per year</td>
<td>25</td>
</tr>
<tr>
<td>U.S. employment experience</td>
<td>Year of lawful employment</td>
<td>1 per year</td>
</tr>
<tr>
<td></td>
<td>(max. 15)</td>
<td>(max. 5)</td>
</tr>
<tr>
<td>Home ownership</td>
<td>Own place of residence</td>
<td>1 per year</td>
</tr>
<tr>
<td></td>
<td>(max. 5)</td>
<td></td>
</tr>
<tr>
<td>Medical insurance</td>
<td>Current medical insurance for entire family</td>
<td>5</td>
</tr>
</tbody>
</table>
The allocation of points in this proposal is even more stringent than the ones observed in the countries with points systems, but while some of the discussion on the bill related to the points system, the majority of the public attention was on other areas, such as the alleged “amnesty” for illegal immigrants.

This proposal, and the points system, received strong support from President Bush, contrary to the hypothesis presented in Chapter 1. In a statement of administration policy, he said:\footnote{Statement of Administration Policy: S. 1348 - Secure Borders, Economic Opportunity and Immigration Reform Act of 2007 May 23, 2007, \url{http://www.presidency.ucsb.edu/ws/index.php?pid=75114}}

> “The Administration strongly supports Senate passage of the bipartisan immigration reform proposal under consideration on the Senate floor. The proposal offers a much-needed solution for our Nation’s broken immigration system. This proposal would deliver an immigration system that is secure, productive, orderly, and fair. The Administration applauds the members of the Senate who worked in the spirit of bipartisanship over the past months to address this critically important issue . . . For future immigrants wishing to come to the United States permanently, the proposal would revamp our immigration system and establish a new merit-based process, which takes into account job skills, economic needs, education, and English proficiency.”

The proposal did, however, receive opposition from immigrant groups, particularly Hispanic, and some members of both parties, particularly Democrats who might have wanted to distance themselves from the President’s position. An amendment was proposed by Democratic Senators, Barack Obama of Illinois, Robert Menendez of New Jersey and Russel Feingold of Wisconsin. This amendment proposed to implement the points system only provisionally for five years.
In his speech, Sen. Obama, expressed his concerns about the points system, calling it a “new experience in social engineering” with no evidence that it would work. He also expressed that religious and social organizations support the amendment.\footnote{The speech was found at Obama’s senate website which is now inactive, but is available through internet archive at: http://web.archive.org/web/20071012012358/obama.senate.gov/speech/070606-obama_initiativ_3/}

“And they support the amendment because the new points system shifts us too far away from the value we place on family ties and moves us toward a class-based immigration system where some people are welcome only as guest workers, but never as full participants in our democracy. Indeed, the practical effect of the points system is to make it more difficult for Americans and legal permanent residents with family living in Latin America to bring them here.”

It seemed to be the case that the sponsors of this amendment were afraid of losing the electoral support of Latino interest groups if this reform were to be passed. Since most immigrants in the United States are Latin American, the reduction of the family based policy would affect Hispanics the most, since they are the ones that would be unable to bring their extended families to the United States. Furthermore, the education level of Latin American immigrants is on average lower than the level of education of Asian immigrants (Borjas, 1999), for example, so while the latter would in theory benefit from a skills based policy, the former benefit from a family based policy.

This amendment angered many, particularly in the Republican side, who felt that this amendment would make the bill less “bipartisan” and endanger the likelihood it would be approved. Senator Lindsay Graham, Republican from South Carolina, who helped develop the bill, publicly expressed his frustration, and argued that if Republican constituencies were not going to receive what they wanted, deportation of all illegal immigrants, in order for the deal to approve the reform to exist they would
need to offer them reassurance that in the future the immigration system would be different.\footnote{http://blogs.suntimes.com/sweet/2007/06/sweet_blog_extra_obama_graham.html}

At the end of this bickering, the amendment didn’t pass, but the partisan rift did grow. The vote on the amendment was distributed in the following way:\footnote{http://www.senate.gov/legislative/LIS/roll_call_lists/roll_call_vote_cfm.cfm?congress=110&session=1&vote=00200}

<table>
<thead>
<tr>
<th>Party</th>
<th>Aye</th>
<th>Nay</th>
<th>NV</th>
</tr>
</thead>
<tbody>
<tr>
<td>Democratic</td>
<td>39</td>
<td>8</td>
<td>2</td>
</tr>
<tr>
<td>Republican</td>
<td>1</td>
<td>47</td>
<td>0</td>
</tr>
<tr>
<td>Independent</td>
<td>2</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>42</td>
<td>55</td>
<td>2</td>
</tr>
</tbody>
</table>


“People on opposite sides of the political spectrum, in effect, banded together to defeat the middle, restrictionists on the right were always against the bill because they opposed any legalization for illegal immigrants. Business groups and their allies, including advocates for immigrant rights, lost much of their ardor for the bill because of changes made in the legislative process.”

Senator Kennedy asked Sen. Harry Reid, the Majority Leader, to delay a cloture vote, which he opposed.\footnote{Same the last one.} The cloture vote came on June 28, and the vote was
rejected—in other words, the filibuster could not be defeated. The distribution of votes was:

Table 3.12: Distribution of votes on Motion to Invoke Cloture on S.1639

<table>
<thead>
<tr>
<th>Party</th>
<th>Aye</th>
<th>Nay</th>
<th>NV</th>
</tr>
</thead>
<tbody>
<tr>
<td>Democratic</td>
<td>32</td>
<td>15</td>
<td>1</td>
</tr>
<tr>
<td>Republican</td>
<td>13</td>
<td>37</td>
<td>0</td>
</tr>
<tr>
<td>Independent</td>
<td>1</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>46</td>
<td>53</td>
<td>1</td>
</tr>
</tbody>
</table>

This vote “killed” the bill. The distribution of votes seems to indicate that there was a division among partisan lines, with Republicans wanted to reject the cloture and Democrats in favor of it. There were, however, notable exceptions in both parties.

In this case, the points system was not promoted as a way to improve the fiscal situation of the country, and unfortunately it was part of a broader proposal that included issues of illegal immigration and amnesty.

Conclusions

The purpose of this case study is to show how the intervening variables I describe in my theory: the political parties in power and the existence of a fiscal crisis affect the selection of immigration policy in the United States from the XIX Century to the present.

While federal immigration policy as we know it today is a phenomenon of the XX Century, even before that era I was able to find evidence of a “political business cycle” of sorts related to immigration policy. The “public charge” head tax implemented in

1819 in New York City exhibits that immigration policy is a fundamentally fiscal issue. While racial or ethnic concerns changed dramatically in the almost two hundred years covered in this case study—concerns over Canadian day laborers crossing the border are unheard of today, and were present in the Literacy Test discussion—the concerns about the impact of different types of immigrants in the economy remain.

Moreover, as the twenty years long legislative back and forth over the implementation of the Literacy Test shows, fiscal and financial crises, particularly repeated ones as was the case in the early 1900s in the United States, trigger a change in how both policy makers and interest groups view immigration policy. While in the 1890s, labor unions were opposed to the Literacy Test, at the end of the debate in 1917, they supported it, and while in 1917 President Wilson enjoyed a Democratic majority in both chambers, the interests of the Democratic constituency were more in line with a Literacy Test, particularly after the concerns about potential massive labor inflows after World War I.

The 1989-1990 debate over the implementation of a points system provided further evidence of the impact of financial and fiscal crises over immigration policy preferences. Since the country was in the middle of the Savings and Loans crisis, the fiscal consequences of the 1986 immigration reform that gave amnesty to millions of immigrants became clear and was an integral part of the debate. While the implementation of a points system became politically inviable, the 1990 reform is useful to inform the theory presented in chapter 1. When either political or economic intervening factors are not conducive to the implementation of a points system, a drastic change of policy from family based to skill based, temporary high-skilled worker programs or visas, such as the H1-B in the United States, are a second best solution. As a consequence, these type of policy changes are expected to occur also in the presence of fiscal crises that might endanger the survival of the welfare state.
Finally, the fascinating immigration debate in 2007 shows that there needs to be a consensus over the precarious state of the economy and the need to be fiscally responsible to be able to politically sell a points system. While the sponsors of the bill discussed the future fiscal impact of the reform, the opposition to the points system came not for economic reasons or disagreement over the different fiscal impact of high-skilled and low-skilled immigrants, but for electoral concerns, disguised as worries over changing a *status quo* that “functioned” for many years. Moreover, since the points system was included in a comprehensive immigration reform proposal that included “amnesty” programs, the proposal became politically inviable, and concerns over ameliorating the fiscal deficit were not a present as they could have been in the legislative debate.
3.2 Canada

For Canada the problem of survival as a separate political entity, and beyond that, the prospect of growth to a stature commensurate with the physical endowment of the country, have always implied an active concern with immigration and immigration policy.

David Corbett, “Immigration and Canadian Politics”

Canada is, like most countries in the Americas, a nation of immigration. In many ways, immigration issues have moved historically parallel to the United States. Immigration, however, was even more essential in the nation building strategy for Canada than for almost any other country. The nature of Canadian immigration policy was also always consider economic and fiscal, unlike the United States and some European countries in which ethnic and cultural considerations historically have played a more important role. Studying the history of Canada’s policies regarding immigration makes it quite clear why points systems were created and first implemented there. In a way, it seems like history was destiny for Canada’s current selective immigration policy.

The Political System of Canada

The Canadian political system has not changed dramatically since the Confederation, the process by which the British provinces of Canada, Nova Scotia, and New Brunswick and Quebec joined creating a country. It is a federal system, where the head of state is the King or Queen of England, who has a representative in Canada the Governor-General. Canada has a bicameral legislator. The Senate is elected by the Governor-General, but the House of Commons is elected through direct elections in single member districts. The Prime Minister is the Head of Government and is elected through a parliamentary party caucus, and ministers are chosen by the Prime Minister from the House of Commons (McGillivray, 2004; Cairns, 1968). The party
system in Canada is more complicated. Even though the single member electoral system creates a tendency towards a bipartisan system according to Duverger’s Law, Canada has a multiparty system with strong parties. This is a result of an additional political cleavage besides the liberal-conservative dimension, the Francophone-English speaking division. As a consequence, the electoral system favors small parties with geographically concentrated support, and discourages those with nationally diffuse support (Cairns, 1968, 62). According to Reitz (2004), there are no prominent anti-immigration parties in Canada, but the Liberal Party -strong in Quebec and Ontario- have had historically the most pro-immigration record (Reitz, 2004, 112).

Below, I will describe the evolution of immigration policy in Canada, a traditionally liberal welfare state. My theory is that fiscal crisis and left of center governments make it more likely to implement this type of policies. However, these events have occurred more than once in Canadian history. In this section, I will describe how economic crises in Canada influenced immigration policy towards a points system when the conditions were ideal.

**Open doors: The Post-Confederation XIX Century**

**The crisis**

After the Confederation in 1867, the Canadian economy was peripheral, and the economic cycles were similar to the American ones. The size and severity of the contractions, however, was much smaller in Canada. Moreover, there were no banking collapses in Canada, similar to those experienced in the United States in the same period (Chambers, 1964). The monetary and banking system provided then an additional source of stability.
In terms of the balance of payments, Hartland (1960) finds that capital inflows were greater than outflows. The magnitude of the inflows was also very important for the economy—around 30% of gross investment (Hartland, 1960, 719). Several factors helped the Canadian economy in this regard. First, the value of exports per capita grew by more than ten times in the period. As a consequence, the agricultural exporting sector, played an important counter-cyclical influence in the period. (Chambers, 1964; Hartland, 1960). Additionally, the amount of capital brought to Canada by immigrants reached its highest importance in this period, both as a total of current credits and per capita (Hartland, 1960, 722).

There were, however, some periods of contraction. In 1873, wheat prices decreased, which affected Canadian exports. Also, the leader of the American lumber ring, Dodge and Company, failed and this firm had substantial Canadian interests. While this economic contraction was long—almost three years—the effects were uneven and notable counter-cyclical currents originated in agriculture, since grain and animal exports achieved historically high levels throughout the crisis (Chambers, 1964, 397-399).

There was a second contraction in the early 1880s. After the summer of 1882, stock prices went down and so did the total value of exports that went downwards in 1883. Agricultural exports, nonetheless, provided again a counter-cyclical current and by October of 1884 agricultural exports had recovered strongly. As a consequence, this contraction was modest in amplitude and duration (Chambers, 1964, 400).

Finally, in 1893 while the United States had a financial panic, it did not spread to Canada Chambers (1964) finds that in the 1893-1896, several indicators showed expansion such as bank clearings that rose consistently through those years; urban building activity increased, by about 3.5%; and grain and flour prices improved in these years, even with a poor harvest in 1894.
In this period, immigration policy was seen as one of many economic policies designed to establish a national economy, along with the completion of transcontinental railways, restrictions on manufactured imports to foster the development of national industry, and the adoption of land policy to expand the Confederation to the west (Green and Green, 1999). It was then selective, but not necessarily restrictive, immigration policy.

Political Parties

Left of center parties are more likely to implement selective immigration policies when they face fiscal crises. That combination of events was sometimes present in this era, when along with the periods of economic progress and contraction described above, the Conservatives and Liberals switched power back and forth. John A. Mac Donald, a Conservative, was the first Prime Minister after the Confederation, and served from 1867 to 1873. Mac Donald’s main focus was on populating the West and North-West territories, fearing the expansionist tendencies of the United States, and he was responsible for the ambitious recruitment practices in Canada and the beginning of the railway extension to the west. In 1871, he added British Columbia to the Confederation and Manitoba was created. The second election took place in 1872, at this points the Liberals had accepted the Confederation and MacDonald asked for five more years to finish the job of consolidating the Confederation. The election was very closed, the Conservatives won 174 seats, while the Liberals obtained 167 (Beck, 1968, 21). The first federal election with secret ballots took place in 1874, after what came to be known as the “Pacific Scandal.” In the 1872 election, MacDonald sold the

47The 1867 election was more like four local elections in isolation. Of the 181 members of Parliament, 147 came from Ontario and Quebec (Beck, 1968, 1).
charter to build the railway in return for campaign contributions. In 1873, the Liberal Party obtained evidence to prove this and MacDonald resigned (Knowles, 2007). As a consequence, the Liberal candidate, Alexander Mackenzie won the election with around 67% of the seats, winning in all regions existent at the time, even Quebec which usually voted Conservative (Dean, 1949; Beck, 1968).

Mackenzie only governed one term, and in 1878 MacDonald went back to power. The campaign wasn’t centered on immigration issues, but on trade issues. While the Liberal Party opposed tariffs, MacDonald ran a “protective tariff” campaign, western expansion, and transcontinental railways. Moreover, while in government, the Liberals lacked national cohesion (Beck, 1968; Dean, 1949; Knowles, 2007).

In 1896, Mackenzie’s Minister of Inland Revenue, Wilfrid Laurier, became Prime Minister. The 1896 election was very close. The Conservative candidate, Charles Tupper won the plurality of the popular vote, but Laurier and the Liberals obtained more seats. Laurier had a more protectionist platform in terms of trade, which helped him attract Conservative votes, and received the support from Quebec, his province, that usually voted for Conservatives, representing the transformation of the French Canadians from Conservative to Liberal. This election is considered the first “critical election” in Canada, because it was a decisive election in every one of the provinces, even the young British Columbia. It ended the Conservative dominance, also because it represented the nationalization of the party system, and Liberal representation remained virtually fixed after that election for a long time (Blake, 1979).

**Selective Immigration Policies**

The economic and political developments in Canada during the Nineteenth Century affected the development of immigration policies in the expected direction.
Canada was scarce in labor and capital, but abundant in land. For both political parties, immigration was a priority in order to populate the West, but the Liberal Party favored more selective immigration, as predicted, but both demanded an increase in the number of immigrants. When the United States had already started restricting immigration through the Literacy Test, the Canadian government implemented an aggressive and expensive campaign to attract immigrants to Canada. While Canadian immigration policy at the time was one of “open doors,” there were priorities, based on the economic needs of the country.

Dunae (1984-1985) explains that this campaign was directed by the Department of Agriculture and focused on attracting agricultural workers, promoting specially Manitoba and the North West Territory because the land was more inhabited than in the East; and women. Local and National governments sent agents to Europe to recruit immigrants. The first agents were posted as early as 1859 in England (Dunae, 1984-1985, 19), and 1872 in Antwerp and Paris (Kelley and Trebilcock, 1998, 80). These agents would disseminate information about Canada through fliers, etc. Many of these agents, however, sometimes provided exaggerated information and were more detrimental than beneficial to the cause.

Several European countries had emigration restrictions, which made it harder to attract them to Canada. Therefore, in 1897 the “North Atlantic Trading Company” was created. The goal was to have European shipping agents to clandestinely direct agricultural settlers to Canada for a larger bonus (Knowles, 2007, 92). The company also received bonuses for female domestic workers and family members (Kelley and Trebilcock, 1998, 120). Five years later it was dissolved, but the company was responsible for 50,000 new immigrants (Kelley and Trebilcock, 1998, 136).

In 1896, Clifford Sifton was appointed Minister of Interior. One of his goals was to implement a “selective” policy to favor agricultural migrants (Kelley and Trebilcock,
1998; Knowles, 2007; Timlin, 1960). He was convinced agricultural exports were the key to prosperity, so in a memorandum to Laurier, he said (Knowles, 2007, 85):

“Our desire is to promote the immigration of farmers and farm labourers . . . It is admitted that additions to the population of our cities and towns by immigration [are] undesirable from every standpoint and such additions do not in any way whatsoever contribute to the object which is constantly kept in view by the government of Canada in encouraging immigration for the development of natural resources and the increase of production of wealth from these resources”

Besides agricultural exports, one of the economic priorities was the extension of railroad lands. In 1880, the Canadian Pacific Railway Company agreed to construct the transcontinental railway, which would stimulate movement of labor towards the West. The two policies were mingled: Railroads were seen as a way to place immigrants in developing regions where their crops would provide for new sources of revenue and the newcomers would adapt to the Canadian environment (Avery, 1972).

When railway companies required labor, the government would increase its recruitment efforts abroad, but many times European immigrants were not prepared for the low wages and living conditions. As a consequence, the government started recruiting Asian workers. This went against the preferences of some political groups and labor organizations, worried about the low wages. Businessmen, however, favored them as "the ideal worker for an expanding economy" (Avery, 1972, 139) and opposing the head tax. The government aligned with business interests that argued "either you must have this labour or you cannot have a railway" (Avery, 1972, 138) and argued the immigration was temporary so the opposition was unwarranted. By 1891, however, they constituted 10% of the population of British Columbia (Avery, 1972).

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48 The immigrants working specifically on railroads were called "Navvy" (Avery, 1972)
In summary, in the late Nineteenth Century Canada had a selective immigration policy, that favored a set of skills -farming and railroad construction-. While there were few fiscal crisis in the period, there was another type of economic crisis, in this case the economic development of the country and the population of the west.

Unlike later periods, discussions of the welfare state were not present in the debate since it had not been created, making the fiscal argument less relevant, particularly when tariffs were imposed as part of the national development strategy. Hiscox (2001, 108) asserts that while soon after the Confederation tariffs where a partisan issue - with Liberals against them and Tories in favor- in the 1890s, when Laurier, a Liberal, became Prime Minister he adopted a pro-tariff platform. Since the United States was increasing tariffs at the time (the Dingley Tariff specifically), Laurier introduced the “Dominion Tariff” in 1897 to give preference to British imports and impose duties at higher rates for the United States.

The closing of the open doors: Early XX Century

Political Parties

During this period, Laurier was Prime Minister, serving until 1911, when Robert Borden, a Conservative won the election on the issue of free trade (reciprocity), and the participation of Quebec in the newly formed Canadian Navy.\(^49\). In 1911, Canada went from a liberal majority of 50, in a Parliament of 221, to a Conservative majority of 47 (Johnston and Percy, 1980, 712). The Laurier government had signed a “Reciprocity” agreement with the United States and then President Taft, which provided for free trade of most agricultural products between the two countries. The winners

\(^{49}\)French Canadians considered it surrendering to British interests, since they would have to participate in all British Wars. Also, it was considered for some a religious issue between Catholics in Quebec and British Protestantism (Beck, 1968, 120-121).
from globalization were capital owners and those the farming areas in the prairies in the center and west of Canada. Labor lost from trade liberalization. Manufacturing employees, nonetheless, were to lose from reciprocity, along with transportation workers and financial institutions. The other issue in the campaign, which evolved from the “Reciprocity Agreements” were the annexation fears that the Conservatives exploited, particularly among British born Canadians that were afraid Canada would be annexed to the United States, and lose its ties to Great Britain (Johnston and Percy, 1980).

Both Laurier and Borden favored immigration, and the political divisions in the election were not based on this issue. As a matter of fact, Kelley and Trebilcock (1998, 161) argue that once in power the Conservatives did little to change immigration policy, and oversaw the admission of more immigrants than any other period to that date.

The crisis

While Canada was relatively impervious to the financial panics in the United States in the nineteenth Century, the same cannot be said of the 1907 Panic, when the collapse of the Knickerbocker Trust Company in New York City triggered a financial panic in Canada. Money demand in Canada peaked always during the crop harvesting season when western farmers were required to acquire loans to move the crop to the east. According to Rich (1989), in 1907 there were at least two complications that caused the Canadian Financial Crisis in 1907. First, because of poor weather conditions, the crop was harvested later than usual. Second, because of the financial situation in the United States, Canadian banks’ gold supply was tightened so lending was held back. At the time, Canada had no central bank, but the government issued “Dominion notes” that could be redeemed for gold. That was the only monetary
tool the government could use to influence cash reserves. This tradition changed in 1907 when the Canadian government became the lender of last resort and provided temporary liquidity to banks through an emergency issue of Dominion notes (Rich, 1989, 136).\textsuperscript{50}

While the economic contraction didn’t last long, it did triggered an increase in the debates over immigration policy, starting the end of the open immigration. This fact was further worsened by World War I, when “enemy aliens” became a political issue.

**Selective immigration policies**

Two consequences of the crisis were directly related to immigration. The first one was the Vancouver Riot, a rally organized by the Asian Expulsion League, which attracted thousands of protesters, and caused much destruction. It prompted the establishment of an emigration quota of four hundred a year Japanese immigrants to Canada that the Japanese government implemented after much prodding from Canada. Canada didn’t impose the quota herself to avoid upsetting business interests (Kelley and Trebilcock, 1998; Timlin, 1960).

The second one, which is more relevant for the theory put forward in the first chapter, was an unusual flow of British immigrants, some of which were funded by charitable organizations or public funds to leave Great Britain after they became unemployed. This caused some suspicion among Canadians that the British were trying to reduce their poverty rates. According to Timlin (1960, 523), “the provision

\textsuperscript{50} As a consequence of the 1907 crisis, in 1914 the Canadian government passed the Finance Act of 1914, where the government acquired the authority to make advances to banks against collateral (Rich, 1989, 136).
'No English need apply' multiplied in Canadian advertisements for labor.” As a consequence, the Order in Council, in 1908 established that no person could enter Canada as an immigrant if their trip had been paid by a charitable organization, unless that organization was previously approved by the Canadian government (Timlin, 1960, 523). This became a new interpretation of the 1906 Immigration Act, in which the Orders in Council were allowed to “prohibit the landing of any specified class of immigrants.” While this provision seemed too general to be relevant two years before, after the 1907-1908 it became the main policy tool for selective immigration.

Furthermore, to calm concerns about immigrants becoming dependent on public services, the Canadian government approved a provision which stated that all immigrants landing in Canada had to possess $50 if arriving in the winter season, or $25 at other times of the year, unless they had prearranged farm employment, or had proof of financial support from friends or family in Canada (Kelley and Trebilcock, 1998, 137). This supports the idea that immigration policy is interdependent from the welfare state, and the hypothesis that selective immigration policies that are fiscally beneficial are likely to be implemented in times of fiscal crisis. These restrictions are very clear examples of how situations of fiscal contraction, caused in this case by a banking rescue, change the immigration priorities in policy makers. While Canadian policy was selective since the nineteenth Century, favoring the skills of farmers and navvies, after the 1907-1908 recession, it became selective both on skills and on the effect of immigrants on the welfare state, supporting the theory presented in chapter one.
The Great Depression

The crisis

As was the case during the XIX Century, the Canadian economy was heavily dependent on the international economy. In the in the years before the Great Depression there was an economic boom across all sectors and regions in Canada, combining the agricultural production in the now established West and an industrial revolution with advances in manufacturing. Wilson (2006) argues that immigration, trade, and investment created a cycle of productivity, and changed the factor endowment. An increase in productivity and technology -partly due to transportation advances which benefit from the immigration of the navvy, among other issues- triggered incentives to invest in Canada, bringing capital to the country. This inflow of resources then provided incentives for further immigration. In summary, Canada became a very globalized economy, and one in which the aspects of globalization fed each other.51

In 1928, exports of merchandise were 22% of the national economy, and the United States took 38% of them. Most of the exports were agricultural products, such as wheat, flour, lumber, and pulp wood. Moreover, a big part of the Canadian economic boom depended on foreign borrowing. From 1926 to 1930, 47% of total interest paid on bonds was paid to non residents (Safarian, 1959, 4-50). Canada was fortunate not to run into a banking crisis. Banks were commercial, for the most part, and they were not allowed to tie their funds in long term or non liquid loans, which included real estate. The few non liquid investments were securities -mainly government bonds- which were liquidated after the stock market crash. Additionally, the banks could increase their liquidity through the use of Dominion notes.

51 For a very detailed description of the Great Depression in Canada see: Safarian (1959)
As a consequence of the heavy dependence on the global economy, and on the United States, the depression hit Canada particularly hard. In 1933, gross national expenditures in constant dollars\textsuperscript{52} were seventy percent of the 1929 national expenditures, and fifty six percent in nominal prices. Exports in 1937 were half of what they were in 1929 and that year consumer expenditure was still 14% below the 1929 level. Worst of all, in 1933, one fifth of the labor force was unemployed (Safarian, 1959, 3,45).

The Canadian economy was hit so severely because of several reasons. In times of economic crisis, people consume less perishable goods, and Canada’s main exports were agricultural products. Furthermore, the largest trade partner of Canada was the United States, where the crisis originated, followed by Great Britain whose economy also weakened severely.

Not only trade decreased, but so did foreign investment which had financed a large portion of the industrialization of Canada during the twenties. To top it off, the establishment of a western settlement, for the most part was finished. As a consequence, the great explosion in investment on railways that occurred in earlier years, had lost its impetus.

**Political Parties**

The last election before the depression took place in 1925. An alliance of Liberals and Progressives formed a minority government, in which the Liberal candidate, William Mackenzie King was elected Prime Minister for the second time. The election was very close, the Conservatives actually won more legislative seats than the Liber-

\textsuperscript{52}The base year is 1935
als. Mackenzie called for elections that year, because he feared his party might lose the government if he waited for longer. His opposition, leaded by Arthur Meighen, the previous Prime Minister focused on the Liberal government lack of accomplishments (Beck, 1968).

This election brought the Canadian electoral system back to a mostly bipartisan system. The distribution of seats is described in Table 3.13 (Sharp, 1926, 114):

<table>
<thead>
<tr>
<th>Province</th>
<th>Liberals</th>
<th>Conservatives</th>
<th>Progressives</th>
<th>Labor</th>
<th>Independent</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prince Edward Island</td>
<td>2</td>
<td>2</td>
<td></td>
<td></td>
<td></td>
<td>4</td>
</tr>
<tr>
<td>New Brunswick</td>
<td>1</td>
<td>10</td>
<td></td>
<td></td>
<td></td>
<td>11</td>
</tr>
<tr>
<td>Nova Scotia</td>
<td>3</td>
<td>11</td>
<td></td>
<td></td>
<td></td>
<td>14</td>
</tr>
<tr>
<td>Quebec</td>
<td>60</td>
<td>4</td>
<td></td>
<td></td>
<td>1</td>
<td>65</td>
</tr>
<tr>
<td>Ontario</td>
<td>12</td>
<td>69</td>
<td>1</td>
<td></td>
<td></td>
<td>82</td>
</tr>
<tr>
<td>Manitoba</td>
<td>1</td>
<td>7</td>
<td>7</td>
<td>2</td>
<td></td>
<td>17</td>
</tr>
<tr>
<td>Saskatchewan</td>
<td>15</td>
<td>6</td>
<td></td>
<td></td>
<td></td>
<td>21</td>
</tr>
<tr>
<td>Alberta</td>
<td>4</td>
<td>3</td>
<td>9</td>
<td></td>
<td></td>
<td>16</td>
</tr>
<tr>
<td>British Columbia</td>
<td>3</td>
<td>10</td>
<td>1</td>
<td></td>
<td></td>
<td>14</td>
</tr>
<tr>
<td>Yukon</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>101</td>
<td>117</td>
<td>24</td>
<td>2</td>
<td>1</td>
<td>245</td>
</tr>
</tbody>
</table>

The campaign wasn’t run on big issues. Beck (1968, 163) even said there was no clear-cut issue in the election of 1923, and immigration was not an exception. While tariffs were high since the war years, which caused an exodus of 300,000 Canadians to the United States in 1924, and other types of taxes were held also at the war levels. The Liberal government also proposed an increase in freight rates, which had been in place since the 1897 when Prime Minister Laurier implemented them. These issues were cause of concern among the exporting sectors particularly farmers in the West. Liberals, however, framed their campaign on the claim that without an effective majority, it was impossible to govern efficiently, while the Conservatives focused on a
“tariff to save Canada”, while the Progressives ran their campaign on free trade and public ownership of railways (Sharp, 1926).

Another election was called in 1926, when some problems were revealed on the Customs Department following the investigation of a special committee. The results of the investigations revealed many problems inside the department that King had failed to correct. The Liberals wanted to blame the former Minister of Customs, but the Conservatives did not accept that and introduced an amendment condemning the whole cabinet. On June 25, King lost control of Parliament and resigned before facing a vote of censure (Beck, 1968).

The election ended up being beneficial for the Liberals. The results are in table 3.14 (Beck, 1968, 188):

<table>
<thead>
<tr>
<th>Province</th>
<th>Liberals</th>
<th>Conservatives</th>
<th>Progressives</th>
<th>Others</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prince Edward Island</td>
<td>3</td>
<td>1</td>
<td></td>
<td></td>
<td>4</td>
</tr>
<tr>
<td>New Brunswick</td>
<td>4</td>
<td>7</td>
<td></td>
<td></td>
<td>11</td>
</tr>
<tr>
<td>Nova Scotia</td>
<td>2</td>
<td>12</td>
<td></td>
<td></td>
<td>14</td>
</tr>
<tr>
<td>Quebec</td>
<td>60</td>
<td>4</td>
<td>1</td>
<td></td>
<td>65</td>
</tr>
<tr>
<td>Ontario</td>
<td>26</td>
<td>53</td>
<td>2</td>
<td>1</td>
<td>82</td>
</tr>
<tr>
<td>Manitoba</td>
<td>11</td>
<td>4</td>
<td>2</td>
<td>1</td>
<td>17</td>
</tr>
<tr>
<td>Saskatchewan</td>
<td>18</td>
<td>3</td>
<td></td>
<td></td>
<td>21</td>
</tr>
<tr>
<td>Alberta</td>
<td>3</td>
<td>1</td>
<td>11</td>
<td>1</td>
<td>16</td>
</tr>
<tr>
<td>British Columbia</td>
<td>1</td>
<td>12</td>
<td>1</td>
<td></td>
<td>14</td>
</tr>
<tr>
<td>Yukon</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>128</td>
<td>91</td>
<td>20</td>
<td>6</td>
<td>245</td>
</tr>
</tbody>
</table>

In 1930, Prime Minister Mackenzie King dissolved the Parliament and called for election, probably hoping for a reelection before the effects of the depression in Canada hit rock bottom. With the Progressives, he had been able to address legislation, and the Conservatives had changed leadership. Instead of his arch-enemy, former Prime
Minister Meighen, the Conservatives had chosen R.B. Bennett. Mackenzie proposed a budget -known as the Dunning budget- that year which gave trade preference to Great Britain, that beside increasing trade, soothed Conservative fears about separatist tendencies. It was retaliation against the Smoot Hawley tariff the United States was about to implement (Beck, 1968, 192). Even though the stock markets had crashed, he thought the situation was reasonably good.

Richard Bennett, the Conservative candidate ran a campaign based on economic nationalism and trade restrictions to compete with the United States and fight the unemployment caused by the economic depression. He argued “I will use tariffs to blast a way into markets that have been closed to you” (Soward, 1930, 998).

As might be expected from an incumbent running in bad economic times, the Liberal-Progressive government didn’t have much of a chance. It was too late for Mackenzie King to hope for reelection and the economic situation was obviously worse than he thought. The electoral results can be seen in table 3.15 (Soward, 1930, 996):

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Prince Edward I.</td>
<td>1</td>
<td>3</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>4</td>
</tr>
<tr>
<td>New Brunswick</td>
<td>4</td>
<td>10</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>14</td>
</tr>
<tr>
<td>Nova Scotia</td>
<td>1</td>
<td>10</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>11</td>
</tr>
<tr>
<td>Quebec</td>
<td>40</td>
<td>24</td>
<td></td>
<td>1</td>
<td></td>
<td></td>
<td>65</td>
</tr>
<tr>
<td>Ontario</td>
<td>22</td>
<td>59</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td>82</td>
</tr>
<tr>
<td>Manitoba</td>
<td>1</td>
<td>11</td>
<td>2</td>
<td></td>
<td></td>
<td></td>
<td>14</td>
</tr>
<tr>
<td>Saskatchewan</td>
<td>11</td>
<td>8</td>
<td>2</td>
<td></td>
<td></td>
<td></td>
<td>21</td>
</tr>
<tr>
<td>Alberta</td>
<td>3</td>
<td>4</td>
<td>9</td>
<td></td>
<td></td>
<td></td>
<td>7</td>
</tr>
<tr>
<td>British Columbia</td>
<td>5</td>
<td>7</td>
<td></td>
<td>1</td>
<td>1</td>
<td></td>
<td>14</td>
</tr>
<tr>
<td>Yukon</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>88</td>
<td>137</td>
<td>2</td>
<td>10</td>
<td>3</td>
<td>2</td>
<td>245</td>
</tr>
</tbody>
</table>
The electoral system worked against the Liberal Party this time. While the Liberals only lost 0.9% of the national vote, they lost 37 seats. The Conservatives’ vote went only from 45.3 to 48.8 %, but they gained 46 seats (Beck, 1968, 202-203). While small, this victory was followed by the most dramatic change in the direction of Canadian immigration policy since the Confederation.

Selective Immigration Policy

This was a changing point for immigration policy in Canada. Prime Minister’s Bennett campaign was based on trade restrictions, and as soon as his government started immigration restrictions were implemented. According to Kelley and Trebilcock (1998, 216): “By March 1931, admissible immigrants were limited to American and British subjects from the predominantly white dominions such as Britain, Ireland, the Irish Free State, Newfoundland, New Zealand, Australia, and South Africa who had sufficient money to sustain themselves; agriculturalists with sufficient means; and wives and minor children of Canadian residents.”

At the time, welfare assistance was primarily a responsibility of the provinces. But during the depression, the risk of provincial bankruptcy became a real concern. The federal government spent ten times the resources on public relief it had spent in the last year (Kelley and Trebilcock, 1998, 230). That was not enough, and there were concerns about the fiscal deficit these actions would cost, so the number of deportations for becoming a public charge increased significantly in the Depression years. Several groups called this practice inhumane, since many of these immigrants had been in Canada for many years. Some municipalities, like Winnipeg even refused to report immigrants on relief because they were unemployed.
As would be predicted from the theory presented previously, right of center governments facing a fiscal crisis are not likely to restrict the types of immigrants by implementing a selective immigration policy, but to restrict the number of immigrants the country receives. The Bennett administration started what became to be known as the “White Canada” policy. In either case, even the mass deportations had in some cases a “welfare state” rationale. A common thread through Canadian history is the consideration of fiscal and economic factors when designing or applying immigration policy. It comes as no surprise then that Canada was the pioneer in implementing points systems as tools for attracting high-skilled immigration.

The end of the “White Canada” era: The Points System

The crisis

For the first five years after Bretton Woods, Canada maintained a pegged exchange rate, as was required by the system. However, because of the swings in commodity prices Canada was forced to adjust its pegged exchange rate in July 1946 from 909¢ to parity, and later in September 1949 back to 909¢ (Schembri, 2008, 5). As a consequence, in 1950 the Bank of Canada decided to implement a floating exchange rate. Because of higher commodity prices, the Canadian dollar appreciated by 12% in the next year and half. There was also an increase in foreign direct investment from the U.S. in natural resources, causing some inflationary pressures, so in 1950 and 1951 direct restrictions on credit were implemented. In the following years, monetary policy was stable: the Canadian dollar traded at a premium versus the U.S. dollar, F.D.I. flows continued, inflation shrank, and the economy grew. The stability of this period was such, that it inspired the development of the Mundell-Fleming model (Boughton, 2003).
By 1957, the honeymoon was over. The Canadian economy started to slow down and the Bank of Canada had to tighten economic conditions. In 1959, a significant spread developed between Canadian and American interest rates. Higher interest rates in Canada attracted capital inflows which appreciated the currency. This caused inflationary pressures, which led the Bank of Canada to tighten monetary conditions further. This fact was combined with an increase in the unemployment rate from 6.5% when 1960 started to 8.7% at the end of the year (Schembri, 2008).

The period of monetary and political instability around this is called “the Coyne Affair.” James Coyne was appointed Governor of the Bank of Canada by the Liberal government in 1956. Once the Liberals lost power two years later, he faced a lot of political pressures from the Conservative government, particularly from the Ministry of Finance, Donald Fleming. 53 Fleming and Coyne had opposite views on monetary policy and fiscal policy, and would often contradict each other. The situation became a crisis when, in 1960, the Directors of the Bank of Canada increased Coyne’s pension from $12,000 to $25,000, making the governor’s salary and pension greater than those of the members of Parliament, including the Prime Minister (Siklos, 2007, 11). Adding fuel to the fire, in 1961, Coyne announced publicly a set of proposals to reduce unemployment, such as a sweeping tax and spending policy changes. This angered the government since they considered it an intromission. At the same time, Fleming publicly disagreed about the volatility of the interest rates and the merits of a pegged rate. The truth of the matter is that the 1935 Bank of Canada Act did not define the role of the government and the governor in monetary policy. The Bank was not really independent. The governor had veto over the Bank of Canada’s board, but

53 No to be confused with J. Marcus Fleming, from the Mundell-Fleming model who was an economist at the International Monetary Fund at the time, along with Robert Mundell (Boughton, 2003).
the Cabinet could support or disallow the veto. Moreover, according to the Bank of Canada Act the Directors could appoint the governor, but the Act didn’t establish whether they could remove him (Macfarlane, 2008). Furthermore, the Directors were not able to act independently since the Bank was not statutorily independent from the government. In a letter to Fleming, Coyne remarked that:

The Bank of Canada Act provides that the directors shall appoint the government, with their choice being subject to approval by Government. Obviously, the directors are intended to exercise their own judgement in this matter, and take the initiative. On June 3, I (Coyne) asked the directors who had come to Ottawa who they were going to appoint in my place, and the answer was “We don’t know. We haven’t been told that yet” (Coyne, 1961).

In February, the cabinet unanimously disapproved Coyne’s reappointment, but they had no unilateral authority to do so, and they didn’t inform him or the public of their decision. On May 30, Fleming and Coyne met and the governor was asked to present his resignation, because the Diefenbaker government was going to implement expansionary policies with which he would disagree. Coyne refused and argued he could not be forced out by the cabinet. The Cabinet announced the next day that they would take legislative action to remove Coyne. On June 20, along with the budget, a piece of legislation was proposed to remove Coyne from the Bank of Canada. The Liberals accused the government of causing a constitutional crisis, proposing the budget and Coyne’s resignation together, and accused the Conservatives of using Coyne as a scapegoat for the failing economy. The Conservatives refused to give Coyne a hearing in Parliament, and since they had a majority they passed the bill. However, they did not have a majority in the Senate. The Banking Committee there did have a hearing with Coyne. The Committee concluded that the bill should not be further debated and that Coyne had not acted inappropriately (Macfarlane, 2008). On July 14, Coyne resigned complaining about the lack of independence of the Bank
of Canada from the government, but arguing the committee verdict had re-vindicate him. He was substituted by Louis Rasminsky who plead to amend the Bank of Canada Act to determine the roles of the Bank of Canada and the government in monetary matters (Siklos, 2007). This Directive Power states that if a conflict occurred between the government and the Bank of Canada, the government is required to publish a directive in the Canada Gazette, and under these circumstances the governor would likely resign (Schembri, 2008, 10).

The government budget did include expansionary policies with which Coyne would disagree since they would conflict with a floating exchange rate, by this time Mundell and Fleming had explained why. The 1961 budget included expansionary spending increases, and the government also expressed a desire to depreciate the dollar, so they began to sell Canadian dollars in the foreign markets. The dollar declined around 5%. More downwards pressures caused an speculative attack on the dollar. The government reaffirmed in April 1962, that it would not set a fixed exchange rate, that caused the Canadian dollar to fall sharply, and in May the government had to re-peg at 0.925 US ¢. Raminsky was afraid of depleting Canada’s reserves. The downward pressures continued, so Canada applied for a drawing of $300 million to the I.M.F. on June 24, 1962. This rescue was conditioned with a financial plan to restore confidence in the Canadian dollar which included balancing the fiscal budget, reducing the current account deficit and imposing temporary import surcharges (Bordo, Gomes, and Schembri, 2009, 17). The next year, Conservatives lost power and the new Prime Minister, Lester Pearson promised in his campaign to balance the budget.

The Coyne Affair was not about immigration policy, but monetary policy and central bank independence, however, the fiscal deficit that ensued had a very impor-

54For a history of the Mundell-Fleming model please see: Boughton (2003).
tant effect on immigration through the increased importance of the welfare programs in Canada and the question of how to control the fiscal deficit and provide public programs in parallel with increasing immigration flows. In 1958, universal hospital coverage was implemented, which added to other “welfare” measures such as unemployment insurance, and there were talks about universal health insurance. Unlike the United States, Canada’s welfare state at the time was a combination of means-tested and universal programs (Myles, 1998, 351). As a consequence, increasing immigration numbers -without taking skill levels into account- would increase the number of recipients and public spending levels in welfare programs. It is under those circumstances that the government tries to implement a selective immigration policy to compensate the need to populate with the need to reduce public spending.

**Political Parties**

Economically, the post-war period in Canada was characterized by the Coyne Affair. But, politically, the post war years were also very active in Canada, particularly in the ten years before the implementation of new selective immigration politics with five elections and two Prime Ministers. The 1957 election brought an end to twenty two years of liberal governments. The results of the election are summarized in table 3.16:

Table 3.16: 1957 Canadian Federal Election

<table>
<thead>
<tr>
<th>Province</th>
<th>S.C. Liberal</th>
<th>Progressive-Conservative</th>
<th>C.C.F.</th>
<th>Liberal-Labour</th>
<th>Ind.</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alberta</td>
<td>13</td>
<td>1</td>
<td>3</td>
<td></td>
<td></td>
<td>17</td>
</tr>
<tr>
<td>British Columbia</td>
<td>6</td>
<td>2</td>
<td>7</td>
<td>7</td>
<td></td>
<td>22</td>
</tr>
<tr>
<td>Manitoba</td>
<td>1</td>
<td>8</td>
<td>5</td>
<td></td>
<td></td>
<td>14</td>
</tr>
<tr>
<td>New Brunswick</td>
<td>5</td>
<td>5</td>
<td></td>
<td></td>
<td></td>
<td>10</td>
</tr>
<tr>
<td>New Foundland &amp; Labrador</td>
<td>5</td>
<td>2</td>
<td></td>
<td></td>
<td></td>
<td>7</td>
</tr>
<tr>
<td>Northwest Territories</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>Nova Scotia</td>
<td>2</td>
<td>10</td>
<td></td>
<td></td>
<td></td>
<td>12</td>
</tr>
<tr>
<td>Ontario</td>
<td>20</td>
<td>61</td>
<td>3</td>
<td>1</td>
<td></td>
<td>85</td>
</tr>
<tr>
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<td>4</td>
<td></td>
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<td></td>
<td>4</td>
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<tr>
<td>Quebec</td>
<td>62</td>
<td>9</td>
<td>1</td>
<td>3</td>
<td></td>
<td>75</td>
</tr>
<tr>
<td>Saskatchewan</td>
<td>4</td>
<td>3</td>
<td>10</td>
<td></td>
<td></td>
<td>17</td>
</tr>
<tr>
<td>Yukon</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>19</strong></td>
<td><strong>104</strong></td>
<td><strong>112</strong></td>
<td><strong>25</strong></td>
<td><strong>2</strong></td>
<td><strong>265</strong></td>
</tr>
</tbody>
</table>

This election came after two important issues. The first one was the role played by Lester Pearson, a Liberal who later became Prime Minister, on the Suez Canal conflict. The Conservatives accused him of being an “chore boy” for the United States, while the Liberals argued it was better than being a colonial errand boy for Great Britain. The second is economic. The arguments that the Conservative Party candidate, John Diefenbaker, made were that Canada was overtaxed even when there was a surplus and that he would implement agricultural protections for wheat farmers in the West (Meisel, 1960). The Liberals got a larger percentage of the popular vote (42.3% vs. 39.1%), but less seats (Regenstreif, 1960, 349). Immigration was not one of the campaign issues.

John Diefenbaker was a newly elected leader for the Progressive-Conservatives, after George Drew resigned in 1956. He was in many ways considered an outsider. He had a German name in a mostly English party and he came from Saskatchewan, in the
prairies, unlike most previous Prime Ministers which came from Eastern Provinces. As a consequence, he focused his campaign on the average Canadian, or the “little man” in the prairies and the West while also managing to keep voters from the English speaking East happy. The province where he had the least support was Quebec, where he made little effort to campaign (Beck, 1968). Given the minority government status, Diefenbaker called for elections less than ten months after he was first elected, running on the basis that to govern he needed a majority government. Diefenbaker was still able to blame former Liberal governments for Canadian ills since so little time had passed since he became Prime Minister. His campaign colloquially, could be called “giving the new guys a chance.” This time, the Progressive Conservatives campaigned in Quebec, unlike the election a year before. In Montreal during the campaign he talked about “equal respect for two great cultures” and called anglophone and francophone Canadians “equal partners” (Beck, 1968, 322). The switch was also strengthen by the fact that the Liberal candidate, Lester Pearson, was not a Quebec native unlike St. Laurent.

The results of this election are in table 3.17.

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This was the largest majority government in the history of Canada to that date. Diefenbaker, promised to divert around 15% of trade with the United States to Great Britain and provide cash advances for stored grains. In the meantime, the Liberals also changed leaders. Louis St. Laurent retired and was substituted a few months before the election by Lester Pearson, a Nobel Peace Prize Winner and diplomat. There were two factors that helped the Conservatives have a majority government were the switch of Quebec from strongly Liberal to Progressive-Conservative, and the transfer of the support for the Social Credit to the Conservatives and the almost disappearance of the C.C.F.. The first was due, for the most part, to the fact that the Liberal candidate was not a “native son.” The second is more complicated. The Social Credit was a product of agrarian discontent in the West during the Depression. This party’s scapegoat was the banking system, which they saw as an instrument of the East to exploit farmers, and it had a religious foundation which played well in

<table>
<thead>
<tr>
<th>Province</th>
<th>Liberal</th>
<th>Progressive-Conservative</th>
<th>C.C.F.</th>
<th>Liberal-Labour</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alberta</td>
<td>17</td>
<td>17</td>
<td>17</td>
<td></td>
<td>17</td>
</tr>
<tr>
<td>British Columbia</td>
<td>18</td>
<td>4</td>
<td>22</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Manitoba</td>
<td>14</td>
<td>14</td>
<td></td>
<td></td>
<td>14</td>
</tr>
<tr>
<td>New Brunswick</td>
<td>3</td>
<td>7</td>
<td>10</td>
<td></td>
<td></td>
</tr>
<tr>
<td>New Foundland &amp; Labrador</td>
<td>5</td>
<td>2</td>
<td>7</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Northwest Territories</td>
<td>1</td>
<td>1</td>
<td></td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>Nova Scotia</td>
<td>12</td>
<td>12</td>
<td></td>
<td></td>
<td>12</td>
</tr>
<tr>
<td>Ontario</td>
<td>14</td>
<td>67</td>
<td>3</td>
<td>1</td>
<td>85</td>
</tr>
<tr>
<td>Prince Edward Island</td>
<td>4</td>
<td>4</td>
<td></td>
<td></td>
<td>4</td>
</tr>
<tr>
<td>Quebec</td>
<td>25</td>
<td>50</td>
<td>75</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Saskatchewan</td>
<td>16</td>
<td>1</td>
<td>17</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yukon</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>47</td>
<td>209</td>
<td>8</td>
<td>1</td>
<td>265</td>
</tr>
</tbody>
</table>
that area. In the Cooperative Commonwealth Federation (CCF), a Socialist Party, the fall in votes might have been due to weak Unions and the fact that blue and white collar workers in urban areas had similar preferences, in other words there was a lack of class consciousness (Regenstreif, 1960).

By 1960, the economic slowdown had started and in 1961, Diefenbaker dispute with the Governor of the Bank of Canada took place, and some argued the Prime Minister response was arrogant, and he was punished by some voters (Wrong, 1963). In the words of Beck (1968): “In 1958 Canadians seemed to ascribe to John Diefenbacker some of the qualities of a divinity. By 1960 his clay feet were showing” (Beck, 1968, 329). On April 17 of 1962, it was announced that there would be Federal Elections in June. Diefenbaker stressed in is campaign that, in his opinion, Liberals were “soft on communism.” Pearson’s campaign was based on resolutions the Liberals had arrived at in their 1961 Convention, that were for the most part related to economic growth, fiscal balance, and job creation.

At first, the campaign was lackluster, but in May things changed. On May 2, Diefenbaker announced the devaluation of the Canadian dollar to 92.5 c for each American dollar. The Prime Minister treated as a gimmick to help exporters and the tourist industry, instead of acknowledging the country was facing financial difficulties. Pearson suggested it was a panic response, but Diefenbaker denied it. The polls suggested Pearson had an advantage, but the voters were strongly divided across a rural (P.C.)-urban (Liberals) cleavage. The election was very close. The Progressive Conservatives won, but were unable to have a majority government, The results are in table 3.18

57Source: Parliament of Canada http://www2.parl.gc.ca/
Just six days after the election, Diefenbaker announced he would implement an austerity program, which included tariff surcharges for imports, substantial cuts in government expenditures and arrangements for $1 billion from the International Monetary Fund (Beck, 1968, 351).

Then, in January a crisis was caused because the Canadian government didn’t acquire the nuclear weapons it had agreed to buy when along with the United States to create a North American Air Defense Command. The United States accused Canada of reneging its commitments. On February 3, Douglas Harkness, the Minister of Defense resigned over disagreements with Diefenbaker. The next day, the Liberals along with the small parties brought down the government through a non-confidence vote.\textsuperscript{58}

\textsuperscript{58}Canada: Diefenbaker’s Shambles, TIME, February 15, 1963.
The election took place in June, and the campaign was centered on the failed economy and on whether Canada should have nuclear weapons. Immigration policy, was at the time, not a campaign issue. The main cleavage was the prairies (Diefenbaker’s core voters) vs. the rest of the country, and can be seen on table 3.19:

<table>
<thead>
<tr>
<th>Province</th>
<th>Liberal</th>
<th>P.C.</th>
<th>S.C.</th>
<th>New Democrats</th>
<th>Liberal-Labour</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alberta</td>
<td>1</td>
<td>14</td>
<td>2</td>
<td>17</td>
<td></td>
<td></td>
</tr>
<tr>
<td>British Columbia</td>
<td>7</td>
<td>4</td>
<td>2</td>
<td>9</td>
<td>22</td>
<td></td>
</tr>
<tr>
<td>Manitoba</td>
<td>2</td>
<td>10</td>
<td></td>
<td>2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>New Brunswick</td>
<td>6</td>
<td>4</td>
<td></td>
<td>10</td>
<td></td>
<td></td>
</tr>
<tr>
<td>New Foundland &amp; Labrador</td>
<td>7</td>
<td></td>
<td></td>
<td>7</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Northwest Territories</td>
<td>1</td>
<td></td>
<td></td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nova Scotia</td>
<td>4</td>
<td>7</td>
<td></td>
<td>11</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ontario</td>
<td>52</td>
<td>27</td>
<td>6</td>
<td>1</td>
<td>85</td>
<td></td>
</tr>
<tr>
<td>Prince Edward Island</td>
<td>2</td>
<td>2</td>
<td></td>
<td>4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Quebec</td>
<td>47</td>
<td>8</td>
<td>20</td>
<td>75</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Saskatchewan</td>
<td>17</td>
<td></td>
<td></td>
<td>17</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yukon</td>
<td>1</td>
<td></td>
<td></td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>129</td>
<td>95</td>
<td>24</td>
<td>17</td>
<td>1</td>
<td>265</td>
</tr>
</tbody>
</table>

On September 7, 1965 Lester Pearson called for elections that year, the third in four years. Diefenbaker tried to bring down the government so that he could be the Prime Minister during the 100 anniversary of the Confederation, which caused divisions among the Conservatives. Also, the flag debate in 1964 had worsened the relationship between the two large parties. At the end, Pearson succeeded in changing the flag, removing British symbols from it. His government had been controversial also because he refused to send Canadian troops to Vietnam.

Pearson ran his campaign on increasing the welfare state in Canada through universal health care, a new pension plan and new labor regulations, as a continuation of the general direction his government had taken. Diefenbaker, instead, ran his campaign mostly as a witch hunt for criminals in the government, along with tax decreases (Beck, 1968, 383). While the Liberals won the election, the lack of a majority government was seen by some as a defeat, but Pearson managed to be one of the most influential Prime Ministers in Canadian history, mostly because of the accomplishments of his second period, including revamping immigration policy and implementing universal health care. The Parliament, however, stayed practically identical, as can be seen in table 3.20.\footnote{Source: Parliament of Canada http://www2.parl.gc.ca/}

Table 3.20: 1965 Canadian Federal Election

<table>
<thead>
<tr>
<th>Province</th>
<th>Liberal</th>
<th>P.C.</th>
<th>N.D.</th>
<th>R.C.</th>
<th>S.C.</th>
<th>Ind.</th>
<th>Ind. P.C.</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alberta</td>
<td>15</td>
<td></td>
<td>2</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>17</td>
</tr>
<tr>
<td>British Columbia</td>
<td>7</td>
<td>3</td>
<td>9</td>
<td>3</td>
<td></td>
<td></td>
<td></td>
<td>22</td>
</tr>
<tr>
<td>Manitoba</td>
<td>1</td>
<td>10</td>
<td>3</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>14</td>
</tr>
<tr>
<td>New Brunswick</td>
<td>6</td>
<td>4</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>10</td>
</tr>
<tr>
<td>New Foundland</td>
<td>7</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>7</td>
</tr>
<tr>
<td>&amp; Labrador</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Northwest Territories</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>Nova Scotia</td>
<td>2</td>
<td>10</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>12</td>
</tr>
<tr>
<td>Ontario</td>
<td>51</td>
<td>25</td>
<td>9</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>85</td>
</tr>
<tr>
<td>Prince Edward Island</td>
<td>4</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>4</td>
</tr>
<tr>
<td>Quebec</td>
<td>56</td>
<td>8</td>
<td>9</td>
<td>1</td>
<td>1</td>
<td></td>
<td></td>
<td>75</td>
</tr>
<tr>
<td>Saskatchewan</td>
<td>17</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>17</td>
</tr>
<tr>
<td>Yukon</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>131</td>
<td>97</td>
<td>21</td>
<td>9</td>
<td>5</td>
<td>1</td>
<td>1</td>
<td>265</td>
</tr>
</tbody>
</table>

\footnote{Source: Parliament of Canada http://www2.parl.gc.ca/}
Selective Immigration

The first immigration action after World War II took place on May 28, 1946 when the cabinet passed P.C. 2071 allowing Canadian residents to sponsor first degree relatives from Europe besides orphaned nieces and nephews under the age of sixteen (Knowles, 2007, 161). The Prime Minister at the time, Mackenzie King, started to suggest that immigration to Canada should be based on the economic needs of the country. In 1947, he suggested changes were necessary:

The policy of the Government is to foster the growth of the population of Canada by the encouragement of immigration. The government will seek to ensure the careful selection and permanent settlement of such numbers of immigrants as can be advantageously absorbed in our national economy ... I wish to make it quite clear that Canada is perfectly within her rights in selecting the persons whom we regard as desirable future citizens. It is not a “fundamental human right” of any alien to enter Canada. It is a privilege.61

This statement started to change the direction of Canadian immigration away from ethnic concerns and back to economic concerns and selective immigration. It also developed into what became the Immigration Act of 1952. This law clarified several immigration procedures, but also gave the Minister of Citizenship discretionary powers: the power to prohibit or limit the admission of immigrants on almost any basis and potentially gave the Minister the last word on every individual immigration case (Hawkins, 1988, 102).

The new law clarified the immigration policy, but it didn’t address issues of discrimination on the basis of national origin or establish how to determine which immigrants are economically beneficial for Canada. Diefenbaker, however, used his oratorical skills to defend the cause of civil rights for all, regardless of race, but the

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61Prime Minister Mackenzie King, in House of Commons Debates, May 1, 1947.
immigration policy contradicted those convictions. It was not until the end of his
government, in 1962 when the Minister if Citizenship and Immigration, Ellen Fair-
clough, that the “White Canada” policy was eliminated. She wanted to reduce the
number of low skilled immigrants while eliminating discrimination on the basis of
race and creed. The 1952 Act stated in section 20 that the eligible immigrants were:

- “British subjects by birth or naturalization in the United Kingdom, Australia,
  New Zealand or the Union of South Africa and citizens of Ireland;
- citizens of the United States of America; and
- citizens of France born in France or in Saint-Pierre and Miquelon Islands

if the person had sufficient means to maintain himself until he secured employment”
(Kelley and Trebilcock, 1998, 326).

In 1962 these conditions were substituted so that a person could be admitted to
Canada “who by reason of his education, training, skills or other special qualifications
is likely able to establish himself successfully in Canada and has either sufficient means
to support himself or has secured employment” (Kelley and Trebilcock, 1998, 332).
This made Canada the first of the largest countries in international immigration (the
others were Australia and the United States) to eliminate immigration policies that
discriminate on national origin. While this was a big step, it did not state which skills
or special qualifications made an immigrant more likely to establish herself. This all
depended on the Ministry of Citizenship.

On the last day of 1964, Prime Minister Lester Pearson announced that a White
Paper\textsuperscript{62} on immigration policy management would be prepared and presented by

\textsuperscript{62}According to the Canadian Parliament website, “It is in 1939 that the term ”white paper” was
first applied to a government document in Canada. The Minister of Finance, Charles A. Dunning,
the Department of Citizenship and Immigration. The white paper took longer than originally expected, and in the meantime Pearson created a new bureaucracy, the Department of Manpower and Immigration, on December 17, 1965. This new department would take responsibilities from both the Department of Citizenship and Immigration -which was dismantled- and the Department of Labor (Hawkins, 1988, 151). This established the precedent that immigration policy was economic policy and that labor and immigration policy had to be somewhat coordinated.

The White Paper was released finally on October 1966 (Marchand, 1966). The document stated that in order to succeed, Canadian Policy had to be selective in order to complement, and not substitute the roles of Canadian natives in the economy. This is when the idea for what would become Canada’s selective immigration policy in modern times first appeared.

Specifically, it says:

“Most immigrants coming to Canada to work are therefore selected in accordance with carefully established criteria and are encouraged to settle in places where a known demand exists for their talents. Such immigrants tend readily to stimulate economic growth through the contribution of skills, ideas, new techniques, or financial investment. Others are able to fill specific shortages of professional or skilled manpower in the national labour force. The high cost of training professional and skilled people -engineers, doctors, skilled technicians, etc.- is a measure of the benefit derived from the arrival in Canada of appropriate numbers of already trained professional and technical personnel. Much of the same can be said of the advantages conferred on Canada by immigrants with capital or entrepreneurial skills” (Marchand, 1966, 10).

announced in the House the government’s intention to "follow this year and possibly in future years, as the house may determine, the practice which is followed in Great Britain and also in Australia of putting together what might be called the statistical and accounting information and explanations into one document which is filed as a white paper and published as an appendix to the budget." (2) To this day, the budget papers are often referred to as economic white papers." http://www2.parl.gc.ca/Parlinfo/Pages/WhitePapers.aspx
Since the country was in the midst of an economic debacle after the the Coyne Affair, fiscal concerns were one of the main reasons for reforming immigration policy. The last section of the White Paper is titled “Financial and other assistance to immigrants,” and it deals with the fiscal costs of immigrants who fail to settle down (find employment) particularly “in respect of welfare and medical care, for which federal aid is limited to truly emergency measures designed to prevent any immigrant suffering actual privation” (Marchand, 1966, 39). The conclusion is that “an outright subsidy for immigrants would be very costly if applied universally and discriminatory if it were not” (Marchand, 1966, 38), meaning in other words that with the status quo at the moment, subsidizing welfare for immigrants would be too costly, but just giving it to some would be unfair.

In short, this White Paper stated that Canada’s immigration policy should be based on the long term needs of the country. While the Paper was signed by Jean Marchand, the Minister of Manpower and Immigration, the points system is the brain child of Tom Kent, who was the Deputy Minister (Knowles, 2007, 194).

A Joint Committee was formed with members from the Senate and the House of Commons to implement these recommendations. With the White Paper as an inspiration or basis, in 1967 the “Norms of Assessment Points Scheme” was implemented in 1967. Besides the points system, a very innovative characteristic of this reform is that there is no formal quota. This meant that if an applicant obtained enough points, she or he would be admitted to Canada regardless of the number of immigrants admitted that year.

The allocation of points in 1967 is described in table 3.21 (Kelley and Trebilcock, 1998, 359):
Table 3.21: Allocation of Points in Canada in 1967

<table>
<thead>
<tr>
<th>Independent applicants</th>
<th>Points</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Short term factors</strong></td>
<td></td>
</tr>
<tr>
<td>Arranged employment or designated occupation</td>
<td>0 or 10</td>
</tr>
<tr>
<td>Knowledge of English and/or French</td>
<td>0-10</td>
</tr>
<tr>
<td>Relative in Canada</td>
<td>0-5</td>
</tr>
<tr>
<td>Area of destination</td>
<td>0-5</td>
</tr>
<tr>
<td><strong>Long term factors</strong></td>
<td></td>
</tr>
<tr>
<td>Education and training</td>
<td>0-20</td>
</tr>
<tr>
<td>Personal qualities</td>
<td>0-15</td>
</tr>
<tr>
<td>Occupational demand</td>
<td>0-15</td>
</tr>
<tr>
<td>Occupational skill</td>
<td>1-10</td>
</tr>
<tr>
<td>Age</td>
<td>0-10</td>
</tr>
</tbody>
</table>

The new immigration selection was approved by a Joint Committee of the Senate and the House of Commons with no objections on April 1967, and became effective on October 1 of the same year (Hawkins, 1988, 162).

While there were no objections in the Joint Committee, interest groups expressed their support or rejection of the points system in the months before it was implemented. At first, some Conservatives, such as Richard Bell who had been a Minister of Citizenship and Immigration in the past was critical on the restrictions on sponsored immigration. The Anglican Church opposed, stating its beliefs on “redemption, reform, and forgiveness” (Kelley and Trebilcock, 1998, 355). Labor organizations were divided: the Canadian Labour Council objected restrictions on sponsored immigrants but the Canadian Manufacturers’ Association favored a selective policy. Contrary to the predictions of a factor endowment model, capital owners, represented by the Canadian Chamber of Commerce also supported it. One of the abundant factors in Canada, land, opposed the bill. The Canadian Federation of Agriculture was against the points system because it did not consider farm labor a skill job, making recruit-
ment harder. Once the reform was implemented, it received a warm welcome in the media and there were few complaints (Kelley and Trebilcock, 1998, 356-359).

The specific allocation of points has changed through the years, but no government has attempted to discard the points system. As a matter of fact, several countries have tried to implement one using Canada as an inspiration, as was discussed in chapter 1.

Several studies have attempted to analyze whether the Canadian immigration system had the intended economic effects. Li (2003), summarizes several of them and concludes “the cumulative difference between what immigrants contribute in taxes and what they receive in benefits represents a net benefit to native-born Canadians” (Li, 2003, 88).

Conclusions

While in terms if the type of welfare state they have, there is no question Canada and the United States are very similar, their immigration policy is very different. In a way, it comes as no surprise that Canada was the pioneer in implementing a points system since they had selective immigration policies back in the nineteenth century. Furthermore, with the exception of the period between the Great Depression to the late fifties and early sixties, immigration in Canada has always been considered economic policy, and one that can foster economic growth. Historically, similar considerations were more rare in the United States. Nonetheless, both countries are large countries of immigration which would be hard to imagine without the very large immigration flows of the XIX Century and recent decades.

The case studies show several factors which influence these differences. Economic considerations have existed in American immigration debates, but in many cases
political factors were not conducive to implementing a points system. While in 1967, Lester Pearson had a minority government—the closest thing to a divided government in a parliamentary system—and he faced some Conservative opposition he was a very popular Prime Minister who had already implemented universal healthcare in Canada, which showed he clearly wanted to expand the welfare state, while reducing the fiscal deficit as was required by the I.M.F. in 1962, just before he took office. As a matter of fact, 1968 when Pearson announced his retirement and Pierre Trudeau (also a Liberal) was elected Prime Minister, he inherited a fiscal surplus (Beck, 1968), unlike Pearson who came to power after an IMF rescue.

The key difference between the failed attempts of implementing a points system in the United States and the successful attempt in Canada is the timing of the proposal, and more specifically the political (Pearson was a Liberal, while both Bush Presidents are Republican) and the economic situation of the country (the crisis in the 1960s made fiscal consideration more important in the minds of both legislators and voters in Canada, while in 1989-1990 and 2007 the priorities in the minds of American voters and legislators were not necessarily fiscal, and more related to international security and terrorism).
Chapter 4

“Corporatist” Welfare States: Germany and France

Immigrants that pay high levels of taxes are fiscally better for any receiving country, but the more “universalist” the welfare system is the more the government would have to spend for every new immigrant. This makes policy makers less likely to implement a points system, even if they would benefit from it because the marginal fiscal impact of highly skilled immigrants will be smaller. The purpose of this chapter is to find how fiscal crises and left of center governments affect the choice of immigration policies in “corporatist” welfare states, such as Germany and France. My predictions are that since these systems have more generous welfare systems, in times of fiscal distress we are more likely to observe restrictions in the total number of immigrants allowed into the country, and not the type of immigrants being admitted, because high-skilled immigrants would still be eligible to receive the same welfare benefits that low skilled workers would enjoy so their net fiscal contribution would be smaller than in liberal welfare states where welfare is targeted towards the poor.
There is evidence of this difference between welfare systems in the current literature. Esping-Andersen (1990) argues that in countries like France and Germany the granting of social benefits was not a contested issue, in contrast with liberal welfare states (Esping-Andersen, 1990, 27).\textsuperscript{1}

In this chapter, I will describe how the fiscal crises and left of center governments have historically affected the selection of immigration policy in two paradigmatic cases of Corporatist Welfare States: Germany and France. According to the theory described in Chapter 1, these two events are expected to make this countries either restrict the number of immigrants they receive or move towards a more selective policy. However, since their welfare systems are more universalistic (less decommodified, using Esping-Andersen terms), this move is expected to be less dramatic than in Liberal Welfare States.

\section*{4.1 Germany}

\begin{quote}
\textit{Kommt die Deutsche Mark, bleiben wir, kommt sie nicht, geh’n wir zu ir}
\end{quote}

(If the Deutsche Mark comes, we stay, if not, we leave for it.)

Slogan used by East Germans and Eastern Europeans (Thränhardt, 1999, 30).

While German (and before unification, West German) immigration figures would indicate Germany to be one of the largest countries of immigration, with flows only second to the United States, until the 2000s the country officially considered itself to be “not an immigration land” (\textit{kein Einwanderungsland}). While at first sight that might look contradictory, this disconnection between practice and reality has to do with Germany’s definition of immigrant and of citizenship. Many of the foreign work-

\textsuperscript{1}These welfare states are also called “Northern Continental Christian Democratic” (Huber and Stephens, 2001, 265) and “Coordinated Market Economies” (Hall and Soskice, 2001, 21).
ers that arrived in Germany were *ausslieder* or Ethnic Germans, coming mostly from Eastern Europe. These combined with the fact that since at least 1913, citizenship is based on ethnocultural basis\(^2\), implied that these foreigners were not considered immigrants, but German citizens.

Furthermore, German immigration policy in the XX Century favored temporary worker programs, not permanent immigration. The German language, however, differentiates between the words “Zuwanderung” and “Einwanderung”, both of these are translated to English as “immigration”, but have very different political meaning. The first one refers to immigration that has a temporary (shorter) character, while the second one is understood as immigration that implies permanent settlement (Schmidt, 2002, 21). As a consequence, the official position of the German government towards immigration during the XX Century is not necessarily contradictory. For the most part, Germany has been a land of temporary migration or *Zuwanderungsland*.

This is relevant because one of the differences between points systems and special visas for highly skilled workers (such as the American H1-B or the German Green Card) is that the former imply permanent migration. This difference became particularly salient during the discussion of the 2002 Immigration Law in Germany which included the proposal of a points system, and can help explain its failure.

**The Political System of Germany**

The current political system of Germany originates from the Constitution or Basic Law that the FRG promulgated in 1949. While the Reunification Treaty contained changes to the Basic Law, the changes were consequences of reunification,\(^2\)This understanding was codified in the German Citizenship Law of 1913, the *Reichs-und Staatsangehörigkeitsgesetz* which dates back to 1913 (Faist, 1994, 54)
such as the allocation of seats given to East Germany in the Bundesrat and the creation of a new Länder or province (Roberts, 2009, 36-37). The system is a semi-parliamentary democracy, commonly called a “Chancellor democracy,” characterized by a strong Chancellor, and a relatively weaker Federal President (closer to a constitutional monarch). The Federal Chancellor “determines the guidelines of policy” (Article 65 of the Basic Law), to the point where Adenauer was both Chancellor and his own Foreign Minister from 1951 to 1955. The Chancellor is elected by the Bundestag and appointed by the President and can only be removed if the Bundestag passes a constructive vote of no confidence, where a successor is named the simultaneously (Roberts, 2009, 122-134).

The political system was thus designed to be very stable, with the probable exception of government coalitions which change often. For Lijphart the German political system can be classified as a “Centripetal Democracy” where society is homogeneous, but elite behavior is adversarial, where instead of a grand coalition government, there are two large coalitions competing for power, and where government coalitions are considered provisional (Lijphart, 1977, 117-118).

Germany is also the prototype of a mixed electoral system. Part of the Bundestag members are elected in a majority system and the rest through proportional representation. Every voter has two votes. The first is for a constituency candidate (Germany has 299 single member constituencies distributed among the Länder according to population density) and the second for a party list for the Länder. Voters can split their vote and choose a party for their first vote and another for the party list. Once the “first vote” seats have been assigned, the rest of the seats are allocated according to the percentage of second votes. This electoral system makes it almost impossible for a party to form government by itself, so coalition formation is an essential part of the political process (Roberts, 2009). This is relevant for the implementation of
immigration policy. Since coalitions are usually necessary to create government, we expect immigration policy to be more moderate: a very radical reform could endanger the stability of the government coalition.

The “Foreigners” Law of 1965

Immigration Policy

After World War II, West Germany lacked an immigration law. Most of the immigration was arranged through bilateral agreements (Castles, 1985; Marshall, 2000) and was only concerned with short term labor requirements, under the belief that immigrants would only remain in the country for a short period of time and would not make demands for social benefits (Castles, 1985, 522). These situation remained until the 1960s when the Ausländergesetz or “Foreigners” Law was approved in 1965 to make temporary migration more flexible and to give the federal government more control. These permits were only granted if West German workers were not available. Immigrants were not granted political rights or a right to residency, but they were able to access some social benefits. The temporary work permits were of limited duration, could be restricted to a specific company and the authorities could withdraw the permit at any time (Castles, 1985, 522-523).

While the purpose of this law was to restrict immigration, it still granted foreign workers welfare benefits they could not access before the law was implemented. As a consequence, the law did not prevent the settlement of “temporary” immigrants. The main consequence of this law was then fiscally negative (more welfare spending). The rationale behind this law had little to do with the fiscal crisis and more to do with the political symbolism of “foreigners” (Castles, 1985).
Political Parties

The political environment in West Germany in the early 1960s was characterized by the end of the Adenauer Era. Konrad Adenauer was the founder of the Christian Democratic Union (right of center party) and had been Chancellor of West Germany since 1949. By 1961, he was 85 years old and the beginning of the construction of the Berlin Wall affected his popularity. According to Pulzer (1995, 73), Adenauer didn’t visit West Berlin until days after the Wall was built, failing to recognize how important and traumatic the event was for Berlin and how much it could affect public opinion. When he finally arrived in West Berlin, he was booed and as a consequence his government coalition\(^3\) almost lost his overall majority, making a coalition with the Free Democratic Party (FDP) necessary to avoid a government of the Social Democratic Party (SPD). The results of the 1961 election gave the CDU/CSU around 45% of the total vote, the SPD received 36% and the FDP around 13% (Burkett, 1975, 139-140), so while a coalition between the SPD and FDP could not have formed government, the CDU/CSU and FDP coalition was viable. Still the FDP had several demands on the table. The terms the FDP put on the coalition negotiation table included the demand that Adenauer retired before the next election. The Chancellor was also losing popularity inside his party because of his friendship with De Gaulle and his support of French-German Friendship Treaty.\(^4\) Other CDU leaders were concerned that such a treaty would endanger US support. Adenauer finally resigned in October of 1963, and Ludwig Erhard, the Minister of Economics was appointed Chancellor. The coalition was fragile, but the imminence of the 1965

\(^3\)His party had governed with the CSU or Christian Social Union.

\(^4\)That Treaty was finally signed by Adenauer before his resignation and was known as the Elysee Accord (Pulzer, 1995, 74).
elections helped keep the government intact. Erhard gained reelection, but neither the economy nor foreign policy were successful. Economic growth rates started to decline from the record levels of the 1950s when he was Ministry of Economy. In 1966, the government coalition collapsed over the fiscal deficit. While Erhard wanted to raise taxes, the FDP preferred spending cuts. As a consequence, Erhard resigned and a coalition was formed between the CDU and the SPD (Pulzer, 1995, 75).

According to Faist (1994) the CDU/CSU coalition, of which both Adenauer and Erhard were members, tried to cast immigration as a cultural and ethnic issue (the Ausländerproblem). Their concern was not about redistribution or the consequences of foreign workers in the welfare state, but on keeping West Germany “German.” This sheds light on why the 1965 Foreigners’ Law granted immigrants access to welfare benefits, but not political rights. The concern of the government coalition was not economic, but political, even during the beginning of the end of the economic miracle in the FRG.

The arrival of the Social Democratic Party to the government also brought a change in the agenda on immigration, emphasizing policies of guestworker integration and attempts to move from a *ius sanguinis* citizenship policy\(^5\) to one of *ius soli*\(^6\), but also brought to the debate arguments about the effect of immigration on wages, since blue collar workers and unions were part of the support group for the SPD (Faist, 1994).

\(^5\)Citizenship based on blood or ancestry.

\(^6\)Citizenship based on where a person is born.
Fiscal Crisis

The West German economy in the 1950s and early 1960s was characterized by a long period of economic growth. During the 1950s the German Gross National Product grew, on average, 8.2% a year (Kerber and Hartig, 1999, 340). The architect of the “German Miracle” after World War II was Ludwig Erhard, Ministry of Economy for Adenauer. According to Kerber and Hartig (1999) his policies were based on what later was called “supply side economics,” and at the time in Germany was called “Ordoliberalism.” Currency was kept at a low level to favor an export-oriented economy, liberalizing trade, and reforming the tax system to favor capital accumulation through tax cuts. While Ordoliberals wanted to reform welfare statism to favor market productivity, Germany had a long tradition of social security, dating from the XIX Century, which was very popular in Germany. The Adenauer and Erhard solution was called a “social market economy,” an attempt to combine market economy and tax cuts with redistributive policies. The government welfare measures had also a foreign policy objective: Adenauer wanted to show the Germans living in the GDR that capitalism delivered better welfare than socialism (Pulzer, 1995, 65).

Because of the financial constraints created by the social market economy, restrictions were implemented on the availability of liquid funds, as a consequence the production of investment goods decreased and so did the number of private companies. In 1965, when the “Foreigners Law” was discussed in the Bundestag, total public debt was 69.6 DM, 40% larger than the previous year (Feiler, 1967, 354). Erhard wanted to raise taxes, the FDP preferred spending cuts, but to my knowledge there was no debate of using the Foreigners Law to increase public income. These pressures in a Liberal Welfare State would have created a fertile environment for the implementation of selective immigration policies. In contrast, temporary workers (zuwanderers)
were granted access to welfare programs. The right of center coalition of CDU and CSU was more concerned about keeping the FRG culturally German than about the fiscal impact of immigration on the welfare state. This goes in line with the main theory of this project: left of center parties are more likely to implement selective immigration policies, especially in Liberal Welfare States.

The end of the recruitment of foreign workers

Immigration Policy

In November 23, 1973 the government decided to put a stop to the recruitment of temporary workers as a response to the oil embargo in arab countries. While this was not the only policy that West Germany implemented, it was one of the most prominent ones. As Hollifield (1992, 75-76) argues, foreign workers were an “industrial reserve army” with few political protections, so states and employers would be expected to discriminate against them in times of recession. This halt in recruitment was implemented unilaterally, without prior consultations with other countries and while the official argument was economical in nature, there were also political reasons. Trade Unions were pleased with the decision, but some employers attempted to lobby for exceptions but it was politically difficult to oppose the new policy since it was widely supported by public opinion (Hollifield, 1992).

The ban, however, didn’t have the expected effects. While the number of newly recruited temporary workers decreased, the new law had two consequences: putting rotation of temporary workers to an end and increasing family based immigration. The first meant that foreign workers that would leave to be replaced by others and return in a later year decided to stay for good (Marshall, 2000, 12). The second that such foreigners’ brought their families to Germany. This settlement put a strain to
the welfare system, which relied heavily on local governments because of the federal nature of West Germany. They had to deal with housing, education, and health care of the new immigrants. The German authorities tried to stop family immigration by granting family members temporary residency permits while denying them work permits (Hollifield, 1992, 85). While the immigration reforms might have alleviated some of the pressures on the employment market, it did nothing to help the public budget since foreigners continued being eligible for welfare benefits, in contrast with Liberal Welfare States, such as the United States where they would not be eligible for unemployment benefits. The implementation of a points system would not have been reasonable in 1973 Germany neither, since high-skilled immigrants would also be able to receive welfare benefits and increasing their tax rate to make them fiscally beneficial would have provided them with no incentive to migrate there.

**Political Parties**

The 1969 election marked the end of the “Grand Coalition” between the CDU/CSU and the SDP and the beginning of the era known as *Ostpolitik* or the opening to the East. The Social Democrats were worried that the CDU/CSU coalition would attempt to implement a first-past-the-post system (a majoritarian system such as the one existing in the United States or Great Britain). The Chancellor (Kiesinger) had announced his intention to implement the electoral reform in 1973, which the Social Democrats opposed. Furthermore, there were disagreements over economic policy between the Minister of Economics, Schiller, from the SDP and the CDU/CSU coalition over the revaluation of the Deutsche Mark, and also over *Ostpolitik*, favored by the
SDP (Burkett, 1975). At the end, the Social Democrats gained 1.25 million votes which allowed them to form a government with the FDP.\footnote{Freie Demokratische Partei Deutschlands or Free Democratic Party of Germany.}

The coalition elected Willy Brandt (leader of the SDP) as Chancellor. The change of parties was very relevant for immigration since both parties had different views of immigration. While Adenauer, and the CDU/CSU were in favor of an ethnical and cultural concept of citizenship, the SDP wanted to emphasize integration policies for the guestworker population (Faist, 1994). According to Pulzer (1995, 111-119) Brandt’s government was characterized too by the \textit{Ostpolitik} and in particular the Moscow Treaty, signed on August 12, 1970 between West Germany and the USSR, followed by similar agreements with other Eastern European countries, and in 1971 the “Four-Power Agreement.” Besides recognizing the sovereignty of the GDR it established formal relationships with East Germany and other soviet republics. Brandt also wanted to allow emigration of the remaining ethnic Germans in Poland, and a fraction of them, 60,000 of them got exit permits in the following five years.\footnote{The emigration issue was finally settled in 1975 with the Helsinki Final Act, when in exchange of a West German monetary contribution for Polish war victims, Poland allowed the emigration of 125,000 ethnic Germans (Pulzer, 1995, 114)} Moreover, in May of 1972 the two Germanys signed the first bilateral transit agreement of civilians. The \textit{Ostpolitik} and all it implied was strongly opposed by the CDU/CSU (even though the agreements were favored by public opinion), and Brandt’s government coalition was fragile. In the summer of 1972, Karl Schiller, the Minister of Economic Affairs resigned because of disagreements over economic policy: he wanted to cut federal spending and the Chancellor didn’t, and Schiller refused to implement restrictions to capital mobility to reduce inflation, an unpopular position in the gov-
This resignation meant Brandt had to end his government, according to the Basic Law. In September 22, however, his cabinet abstained on the vote of no confidence. The final vote was defeated 248-233, so an election had to be called (Burkett, 1975, 121-122). The Social Democrats emerged for the first time as the largest political party, their vote increasing by 3.2% and the FDP vote by 2.6%. This election was in a way a referendum in favor of the *Ostpolitik* and a very successful one.

**Fiscal Crisis**

In some ways, the global economy was more important to change immigration policy than domestic pressure. In October 1973 the Organization of Arab Petroleum Exporting Countries (OAPEC) implemented an oil embargo in response to the United States' role in the Yom Kippur War. This caused a spike in gas prices around the world, including Germany. Ikenberry (1986) defines the German reaction to the oil embargo as a “Competitive Accelerated Adjustment” characterized by letting the economy run its course and absorb the shock, while the government sped up the process strengthening, but not controlling energy companies (Ikenberry, 1986). The increase in prices caused by the global economy brought increases in unemployment, affecting first of all the temporary workers, who according to the Foreigners’ Law were eligible to receive government provided unemployment protection, the main reason behind the end of the recruitment of temporary workers era. It was seen as a policy to alleviate unemployment and protect the fiscal health of the government (Hollifield, 1992; Marshall, 2000). While not all temporary workers were low-skilled, the fact that all of them were eligible to benefit from the government’s welfare programs, a

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selective immigration policy, such as a points system, would have made little sense in West Germany at the time (even in times of fiscal crisis) since high-skilled foreigners legally could rely as much on the welfare state (Castles, 1985) and would not be as fiscally beneficial for the state as they were in Canada or Australia, countries that had a points system at the time.

**Unification of the two Germanys**

**Political Parties**

By early 1989 the pressure to democratize the GDR was high given the reforms implemented by Gorvachev, but the General Secretary of the Socialist Party (SED), Erich Honecker, maintained his hard-line approach, even as the Party lost thousands of members. Then, in September Hungary opened its border with Austria, which allowed thousands of East Germans to flee to West Germany through Austria. Finally, on October 18 the Politburo members forced Honecker to resign as head of state and was substituted by Egon Krenz, who promised free elections in 1990. In the following months, several parties and coalitions were created and the SED changed its name to “Party and Democratic Socialism” (PDS) in an attempt to distance itself from the Honecker regime. The election took place on March 18, and the results were (Braunthal, 1996, 130):\(^{10}\)

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\(^{10}\)Alliance for Germany was a coalition between the CDU, Democratic Awakening, and the DSU.
The winners of the election favored unification, and the Volkskammer (controlled by the Alliance for Germany) voted on October 3 to dissolve the Volkskammer and unite with the Federal Republic of Germany, but negotiations started earlier. Specifically on September 12, in Moscow, when the foreign ministers of each of the World War II allies’ signed the “Treaty of Final Settlement with Respect to Germany” and relinquished their occupation rights over the German territory (Harris, 1991).

The first Bundestag election of the united Germany was called for December 2, 1990 and the results were (Kitschelt, 1991, 122):
Table 4.2: 1990 Bundestag Election

<table>
<thead>
<tr>
<th>Party</th>
<th>Percent</th>
<th>Seats</th>
</tr>
</thead>
<tbody>
<tr>
<td>CDU/CSU</td>
<td>43.8</td>
<td>319</td>
</tr>
<tr>
<td>SPD</td>
<td>33.5</td>
<td>239</td>
</tr>
<tr>
<td>FDP</td>
<td>11.0</td>
<td>79</td>
</tr>
<tr>
<td>Greens (West)</td>
<td>3.9</td>
<td></td>
</tr>
<tr>
<td>Greens/ Alliance 90 (East)</td>
<td>1.2</td>
<td>8</td>
</tr>
<tr>
<td>PDS</td>
<td>2.4</td>
<td>17</td>
</tr>
<tr>
<td>The Greys</td>
<td>0.8</td>
<td></td>
</tr>
<tr>
<td>Republicans</td>
<td>2.1</td>
<td></td>
</tr>
<tr>
<td>All Others</td>
<td>1.3</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>662</td>
</tr>
</tbody>
</table>

The election was framed around the notion of one Germany, which benefited the Christian Democrats led by Helmut Kohl. The Social Democrats were headed by Oskar Lafontaine, who criticized the economic burden that unification would be imposed on West Germany. In the words of Kitschelt: “At least implicitly, his campaign posed the question why East Germans should be entitled to West German affluence although they had not contributed to it” (Kitschelt, 1991, 133).

While the campaign was run on the basis of unification, it is important to remember that immigration and the welfare state were fundamental issues in the process. The population in West Germany increased suddenly by around 16 million people, who by their economic development levels would need more state provided welfare, besides several ethnic Germans moving from other former soviet nations. All of these individuals-regardless of skill level-were entitled according to the Basic Law to receive the same welfare benefits as any other German, and the concern about unification coming from the SPD originated in this issue.
Immigration Policy

On April 1990, months before the official unification but after negotiations had started, the 1965 Foreigners’ Law was reformed. The revisions included making access to German citizenship easier, granting more rights to long-term foreign residents, and facilitating immigration for German-born individuals who had not been in Germany for a long period of time. This was a reform of huge importance. Until that date, German citizenship was based on blood (*jus sanguini*) and afterwards it became also based on where a person is born (*jus soli*), a similar citizenship policy to other countries like the United States or Great Britain. Months later, in July, the Ethnic German Reception Law was enacted, allowing even more Ethnic Germans to immigrate. Along with these reforms, the Christian Democratic government headed by Helmut Kohl (before and after unification) signed bilateral agreements with several Eastern European countries to allow temporary workers to immigrate and work in sectors with labor shortages (Menz, 2009).

While all of these reforms were integral part of the unification process, they were not implemented only under an economic rationale, but on the idea that East Germans were citizens according to the Basic Law, and as a consequence had the right to access the same benefits as West Germans (Faist, 1994, 54). A fundamental characteristic of the German welfare state is a higher degree of universality than in liberal welfare states, and while the 1965 Foreigners’ Law was reformed, the immigrants’ right to access government provided welfare stayed constant. These reforms had a political and historical reason, and not so much a fiscal one. Nobody was fooled: these reforms were fiscally costly for the government but necessary for a peaceful unification.
Fiscal Crisis

While before unification, the Minister of Finance, Theo Waigel, publicly said: “Our policy is: there will be no tax increases for financing German unification” (Münter and Sturm, 2002, 181), the Christian Democratic government had to change its position soon after and a solidarity tax was implemented, along with raises in the fuel and insurance taxes. The tax increases were not enough given the low level of economic development in the East, and as a consequence public debt had to be increased as well. Before unification German public debt was relatively low, compared to other industrialized economies. According to Münter and Sturm, public debt from 1985 to 1985 amounted to 43% of the GDP, while during the following decade it was around 64%. These fiscal pressures were unlike any other the country had experienced and it would take long to recover.

This was exactly the economic environment in which a country with a less generous welfare state would have tried to implement a selective immigration policy, however, in the German case the income to finance the fiscal deficit caused by unification had to come from somewhere else. The Foreigners’ Law since 1965 gave immigrants access to government welfare, and East Germans were German citizens according to the Basic Law, and eastern Europeans with German ancestry were ausslieder and also considered Germans according to citizenship law. In order to “use” immigration for fiscal benefits, the Basic Law and Citizenship Law would have had to be reformed first.
Selective immigration policies in Germany: The 2000s

Political Parties

The popularity of Helmut Kohl’s government went down in the 1990s as unemployment continued to increase and economic growth was slow, so the SPD went on the offensive and attacked the Kohl government to prepare for the 1998 election. While Oskar Lafontaine, the president of the party, wanted another chance to run against Kohl, Gerhard Schröder, president of the Bundesrat had higher approval among voters and also wanted to be the candidate for Chancellor. When Schröder was reelected in the Lower Saxony election (where SPD had declined for eight consecutive elections), the SPD elected him as candidate in March of 1998. Schröder campaign positioned in the ideological center (Umarming der Mitte), appealing to white collar workers, civil servants, and the like. His moderate position was successful, and he was able to take the Christian Democrats completely out of office and form a coalition with the Greens (Conradt, 2000).

The Schröder government started losing popularity fast, not because of friction with the Greens, but internal conflict. While Lafontaine, the President of the party, became Minister of Finance, he disagreed with Schröder’s platform. Lafontaine wanted a mostly Keynesian economic policy, while Schröder wanted a more centrist policy. Lafontaine ended up resigning on March of 1999. While in almost any other situation that would have given the CDU/CSU a big bump in the polls, that was not the case because it was made public that Helmut Kohl, as Chancellor, had falsified party accounting and hidden campaign donations from electoral authorities and as a consequence had to resign. To make matters worse, his successor as party chairman, Wolfgang Schäuble had to follow Kohl’s steps when it was announced that the accounts of the CDU’s parliamentary group, which he chaired, also had irregularities.
Schäuble was substituted by Angela Merkel, who was potentially an electoral asset for the Christian Democrats in areas where they were usually weak. In contrast with Kohl and Schläube, Merkel was female, protestant, and East German, all groups that usually supported the SPD. For the 2002 election the CDU/CSU coalition, however, had doubts about her and proposed instead Edmund Stoiber, Chairman of the CSU, as candidate (Pulzer, 2003). While the coalition increased its vote share in the 2002 elections it was not enough to gain the majority of the Bundestag.

It’s very relevant in this context to remember that while the Chancellor’s coalition didn’t change, the second legislative chamber, the Bundesrat is elected through a different process. The governments of each of the German Länder (equivalent of provinces or states) sends three or more representatives to the Bundesrat (Becker, 2003). As a consequence, if a majority of local governments are from a different party than the Chancellor, there can be “divided government.”

**Fiscal Crisis**

Schröder won the 1998 election in part because of promises to improve Germany’s economy, which was still struggling to recover from unification. During the first part of his government, Schröder promoted supply-side economic policies to stimulate the economy, such as an austerity budget, tax cuts for corporations and individuals and limited pension reform (Busch, 2009; Camerra-Rowe, 2004), which is why the Chairman of the Party and Ministry of Finance, Oskar Lafontaine, resigned from the government. The Schröder reforms did not help solve two of the main economic problems the country was facing at the time: unemployment and a public debt that did not meet the levels required by the Maastrich Treaty. As a consequence, Schröder took a 180 degree turn in the traditional policies of the Social Democrats, a plan he called: Agenda 2010. This plan attempted to reduce the role of the state and
promote individual responsibility. It was the first time that the SPD attempted to shrink the size of the welfare state: Agenda 2010 included plans to reduce taxes, increase privatizations, reduce homeowner allowance, a merger of unemployment and social welfare benefits, easing job protection regulations, and no pension increases in 2004 (Busch, 2009).

Needless to say that while the plan was approved by the Bundestag in 2003, it was not very popular among some of its traditional support groups, such as labor unions and small businesses (Busch, 2009). For a left of center government to implement this reform, strong fiscal tension needs to exist. It is under these circumstances that the proposal to implement a selective immigration policy became relevant: only after a reduction of the German corporatist welfare state to make it closer to a British or American system does the implementation of a points system becomes fiscally beneficial. With a very generous welfare state, even a very high-skilled immigrant is likely to rely more on publicly provided welfare than what she contributed through taxes.

Selective Immigration Policy

By the late 1990s it had become clear in Germany that more high-skilled immigrants were necessary to maintain the competitiveness of the German economy in global markets. Moreover, the media criticized often the fact that without an inflow of productive young workers, the pension system, one of the pillars of the welfare state, would collapse (Menz, 2009). And immigration had traditionally been one of the strong areas for the Social Democrats, who had the opportunity to do something about it after their victory in 1998.

The first step taken by the Schröder government was to implement the “2000 IT sector migration program,” a recruitment plan to attract a total of 20,000 high-skilled
immigrants through special visas, deceitfully named *Green Cards*. These program faced very strong opposition from the Christian Democrats, who responded with the slogan *Kinder statt Inder* (“Children instead of Indians”) indicating they rather train German children for technology jobs than give them to Indians (Menz, 2009; Kruse, Orren, and Angenendt, 2003). The Schröder government, and in particular the Interior Ministry, Otto Schily, wanted to move further in terms of high-skilled immigration and had the support of the business community who liked the move to the ideological center in the Social Democrats. Schily named then the former Bundestag President, a Christian Democrat, Rita Süßmuth. The commission included academics, legal experts, and politicians from all parties and was entrusted to formulate expert, independent advise. At the same time, several independent proposals were being developed by different parties and by Schilly himself. The Commission finally presented its findings in July of 2001, and the most significant part of the report was the first sentence: *Deutschland ist ein Einwanderungsland* (Germany is a land of “permanent” immigration). For most of its modern history, Germany had adamantly denied this, and its policy was based mostly on ethnic Germans (not consider immigrants) and temporary workers (*zuwanderers*). It is hard to understand the difference in English, or most languages, but the political debate that ensued had its source in the two different German words to describe an immigrant.

The other conclusions of the Süßmuth Commission were improving integration and satisfy the economic needs of the country, including an aging population, globalization, and the fact that a number of highly qualified positions could not be filled, even with the high unemployment levels Germany experienced (Kruse, Orren, and Angenendt, 2003; Menz, 2009; Schmidt, 2002). In 2002, Schilly introduced a bill as a response to the Süßmuth Commission’s suggestions which included a points system
to attract high skilled immigrants. The bill was voted in the Bundestag in March 1st and it received support from the SPD/Green government coalition, and a handful of CDU members who broke ranks. The FDP and PDS abstained and the majority of the CDU/CSU voted against (Kruse, Orren, and Angenendt, 2003), which was enough to pass the bill.

The next step was to pass the bill in the Bundesrat, for a first round of voting. The Bundesrat is composed by representatives appointed by the local governments from the Länder, and the Social Democratic majority was much more precarious since two Länder, Bremen and Brandenburg, were governed by Red-Black coalitions of CDU-CSU and the SPD. By March 22, when the first round of voting took place, all Länder had made a decision, but the Land of Brandenburg was divided and was the pivotal Land. The Minister President, Manfred Stolpe (SPD) and his coalition partner, Jörg Schönbohm (CDU) reached no agreement and entered a split vote. The Basic Law, however, established that all representatives from a Land in the Bundesrat have to vote unanimously, or abstain. When the Bundesrat President, Klaus Wowereit (SPD), called Brandenburg to vote, Stolpe said “The Land of Brandenburg votes yes.” But Schönbohm protested to the President, who ignored him and recorded a consensus “yes” vote for Brandenburg. The bill was handed over to the Bundespräsident who signed the act into law on June 25, and the implementation of the points system was established for January 1, 2003. Nonetheless, six Länder governed by the opposition (Baden-Württenburg, Bavaria, Hesse, the Saar, Saxony, and Thuringia) asked the Constitutional Court to abrogate the law because the voting in the Bundesrat was incompatible with the procedures established in the Basic Law. The CDU/CSU opposed the law because it didn’t limit the number of immigrants, only altered the

11The specific details about the allocation of points were not established in the law.
type of immigrants that would enter Germany and saw the constitutional controversy as a way to delay the implementation of the law. The Court delivered its decision right before the implementation date, on December 18. The Court ruled the Brandenburg vote had to be counted as invalid. Since Brandenburg was the pivotal vote, there were not enough voted to pass the law which was declared invalid on procedural grounds (Becker, 2003; Kruse, Orren, and Angenendt, 2003).

In 2003, Schilly introduced an identical bill. However, local elections in the Fall had changed the political balance in the Bundesrat, so the opposition demanded 91 changes to the law in order to vote in favor of it. One of these changes was removing the points system. The FDP supported the points system for demographic reasons, but the Christian Democrats opposed it under the argument that that high-skilled immigrants would move to Germany because they were eligible for welfare benefits, and since these immigrants since would not be ethnically German would not integrate. At the end, the points system was removed from the bill in exchange for more temporary visas for high-skilled workers and allowing foreign college students to remain in the country for one additional year (similarly to the United States system). The law was finally passed in July of 2004 by both chambers (Menz, 2009).

Conclusion

While Germany was very close to implementing a points system, the law that emerged from the Süßmuth commission was brought down on more than procedural grounds. The opposition to the reform from the CDU/CSU coalition was based in part on the fact that Germany had always been a country of permanent migration (Einwanderung), and a points system, unlike a temporary visa would grant residency to immigrants. They didn’t necessarily oppose attracting more high-skilled immi-
grants, as the 2004 law increases work visas for them, but they opposed permanent immigration (Schmidt, 2002).

The German case highlights the importance of the three conditions present in the theory described in Chapter One. It would be almost unimaginable for the CDU/CSU to propose a points system, but for a free-markets supporter, left-center Chancellor such as Scröder, it makes perfect political and economic sense given his political support of small businesses and his plans to reduce the budget deficits, such as Agenda 2010. The latter shows also how the political viability of proposing a points system is dramatically increased by a fiscal crisis. The problem for Schröder was that given the universalistic nature of the German welfare state the fiscal impact of a points system would be much smaller than the one observed in Canada, Australia, New Zealand, and the United Kingdom.
4.2 France

The big originality of France in comparison with the United States, which has been ignored by historians for a long time, is the paradox of a social formation, represented on one side by an achieved model of nation (for its ancient formation, the homogeneity of its population, and the rigidity of its policy frameworks) which, on the other side, was forced, in order to survive, to open itself to massive immigration, which has changed the composition of the initial population which created it. (Noiriel, 2006, 338).

Political System of France

France’s political system has changed more than many of its counterparts in the last half of the XX Century. After the Liberation of France in World War II, the Fourth French Republic was shaped. On May 5, 1946 a referendum was taken on the institutional design of the new Republic, and it was determined that the country would have two legislative chambers, the Parliament and the Conseil de la République. The Communists and Socialists didn’t want a Senate, but there was fear that a majority in the Parliament would not have enough “checks and balances” for the Parliament and Prime Minister. That is why they compromised on a second chamber, but one less powerful than a traditional Senate (Kedward, 2005, 356).

The Fourth French Republic was characterized by Lijphart (1977) as a prototype of a centrifugal democracy, characterized by both a plural society and adversarial elites. In his words: “The French Fourth Republic is often regarded as the outstanding example of unstable, innefective, and immobilist democracy” (Lijphart, 1977, 114). Parties found it almost impossible to have a majority in Parliament, so Prime Ministers were
unable to risk their survival in the government with the implementation of unpopular reforms. This became particularly obvious with the Algerian War. So in 1958, Charles de Gaulle called the nation to suspend the government and create a constitutional system. He proposed a semi-presidential system with a strong President elected for a seven year period who would have executive powers to run the country, but that still would consult with the Prime Minister and Parliament. On June of 1958, de Gaulle was appointed head of government and given the power to rule by decree until the constitutional referendum, which took place in September, when the Fifth Republic started (Kedward, 2005). This strong presidencial figure has been important and has distinguished French immigration policymaking from that of other countries in that most reforms have been implemented by presidential ordinances and not parliament votes, as will be described in the following sections.

Furthermore, the creation of the French Fifth Republic brought important institutional changes to the country. Besides separate presidential elections, the Parliament is elected by a majority-minority electoral system. On the first ballot absolute majority is necessary, but in the second round which only includes candidates with more than 12.5% of the vote are barred from the second ballot (Lijphart, 1999, 146). As a consequence, the effective number of parties in France has been, on average, around 3.5 in contrast with countries single member districts that tend to have only two parties (Lijphart, 1999) and has allowed the emergence of extreme right anti-immigration parties such as the Front National.
The Fourth French Republic: The *Laissez faire* regime

**Immigration policy**

After the end of Nazi occupation France needed workers for reconstruction, and World War II had brought the loss of 600,000 French adults. This made immigration a pressing concern because the other options discussed for satisfying the labor needs needed for rebuilding the country were unpopular: Either increasing retiring age, using more women as workers, or redistributing of labor (Watson, 1952, 3). The De Gaulle government also wanted to re-populate the country with young people, because the with the lost of mostly young citizens during the war the average population age had increased, so the government was worried about the future of the country as a “great power.” Left wing parties, in particular, demanded a government monopoly over immigration matters, so that native labor could be protected in times of unemployment and their preferences went in line with another powerful group, the Commission of Manpower, in charge of designing the first economic plan of the new Republic. While politically more conservative, they argued that to meet their production goals, importing workers of various skills was necessary, and they supported a government monopoly on the matter to be able to send the foreign workers home when they were not necessary anymore. As a consequence of this consensus, in November 2, 1945 the *Office National d’Immigration* or National Office of Immigration (ONI) was created by an ordinance (Freeman, 1979; Money, 1999; Watson, 1952)

In theory, employers would ask the ONI for foreign workers by name or occupation, and the Office would recruit them and do the necessary paperwork to recruit them. But in practice, the process was cumbersome and the employers returned to their pre-war practice to recruit workers themselves. The government didn’t really object since workers were necessary anyway. At that point, the government didn’t provide
immigrants with many social benefits but the immigrants did provide economic gains to the country so the **laissez faire** practice continued until the 1960s (Freeman, 1979). Given the lack of access to the welfare system, immigrants were fiscally beneficial, even if they had low skill levels because the government wasn’t funding them at the time, so restricting labor flows or implemented a selective immigration policy would have made little sense. According to the theory in chapter one, the latter would occur when low skill immigrants rely more on the welfare state than high-skilled immigrants during times of fiscal crisis. At the time, in France, none of these conditions were found.

**Fiscal crisis**

The French Economy during the Fourth Republic was characterized by rapid growth rates, but also high levels of public and private investment in comparison with the interwar period. The reconstruction of the country required new roads, schools, and similar investments from both public and private actors which increased the demand for capital in France at the time. According to Kindleberger (1963) in the period before the Second World War, government credit was the main source of capital formation, but during the reconstruction there was a more varied set of options: self financing of private companies, government funds derived from foreign aid, public debt, and inflationary finance from the rediscounting of the Bank of France (Kindleberger, 1963, 127). While the French government had a public deficit, there was no fiscal crisis at the time given the other options for financing investment. As a consequence, the fiscal cost of the **laissez faire** immigration was not a concern: immigrants did not access the welfare system and taxes were not the only source of public investment for reconstruction.
Political Parties

The Fourth French Republic was characterized by its political instability, since no Prime Minister stayed in power for over two years, and the government switched from left to right almost every time the government changed. DeGaulle decided to retire after the Liberation, but still was a central political figure during the unstable Fourth Republic, and provided political continuity which might explain why the political system didn’t fall sooner than it did, and why DeGaulle was the one who ended it. The death of the Fourth Republic, however, was not brought by its political instability, but because of the failure to decolonize Algeria (Kedward, 2005). In terms of immigration, the political instability that characterized France during the postwar years didn’t affect immigration policy. There was consensus that in order to rebuild the country and its economy after the war the country needed more manpower, and immigration was the way to get it, so different government ideologies didn’t imply immigration changes (Freeman, 1979; Kennedy-Brenner, 1979). Furthermore, according to the theory presented in chapter one, selective immigration policies, moreover, are not likely to be implemented in times of economic boom, such as the French Fourth Republic.

The Fifth French Republic and the beginning of immigration restriction

Immigration policy

At the end of the Fourth Republic and as a consequence of the conflict with Algeria, the French welfare state started to be available for foreign workers. On December 29, 1958, the Fonds D’Action Social (Social Action Funds) were created
by an ordinance to improve the living conditions of Algerians, but on April 24, 1964 a decree mandated the F.A.S. to extend its services to all foreign workers living in France. Some of the funding for the F.A.S. comes from immigrants themselves, but the rest comes from a state subsidy to the budget of the Ministry of Labor (Kennedy-Brenner, 1979, 21). As a consequence, at least some of the burden comes from public funds, and the public concerns over immigrants’ reliance on the French welfare state started.

Furthermore, the *laissez faire* immigration made sense during reconstruction, but public pressure to institutionalize the system in the late 1960s were the source of a bureaucratic re-structuring. In 1966, the Office of Population and Migration was created with the goal to give employers incentives to participate in the state recruitment programs. When that proved insufficient, two ordinances in 1967 changed dramatically the immigration system: The first one on July 15 required employers to register all foreign workers within twenty four hours of hiring them, and the second one on August 21 required partial reimbursement by employers of social security expenditures if one of their foreign employers had failed to obtained the proper medical examinations (Money, 1999, 108). In reality, the number of immigrants increased after those ordinances through recruitment of the O.N.I., but these new immigrants worked in specific industries with labor shortages (Freeman, 1979; Money, 1999) indicating that perhaps, the government didn’t intend to stop immigration altogether, but to select immigrants more carefully.

According to the theory presented in chapter one, reforms towards more selective immigration policies, such as points systems, are more likely to occur in liberal welfare states, with left of center governments in times of fiscal crisis. While the French welfare state is more corporatist and universal than in a liberal welfare state, and the *Fonds d’Action Social* extended that welfare to all immigrants, each of this charac-
teristics by themselves are likely to provide incentives for a relatively more selective immigration policy, such as the re-structuring of the immigration bureaucracy. In the next section, I will discuss how the economic situation of the country affected its immigration policy.

**Fiscal crisis**

The bureaucratic changes in terms of immigration that occurred in 1966-67 happened at the same time as a relative small recession hit France. While in part the domestic production fell around 1.6% because of a decrease in exports, the source of the crisis was fiscal. One third of industry at the time was at least partially publicly owned, and the 160 public companies accumulated deficits of over one billion francs in 1966.\(^{12}\) As a consequence, unemployment rose around one percent during those years (Nickell, Nunziala, and Ochel, 2005), which can explain why in this case, the concern was not whether the new immigrants would pay more in taxes than what they use in welfare, it was about alleviating the unemployment pressures caused by ill-functioning public companies (Hollifield, 1992).

**Political Parties**

For the first decade of the Fifth French Republic, the President was General DeGaulle. While his popularity as a war hero gave him plenty of legitimacy, and he was able to win the Presidential elections during the 1960s, he did not attempt to destroy party politics in the Parliament. In 1958, immediately after the new republic was founded, he created a new party, the *Union pour la Nouvelle République* (UNR) which along with other smaller partied provided DeGaulle with parliamentary sup-

port. However, in 1968 student protests and a strike and takeover in the Renault plant at Boulogne-Betancourt, brought social instability to the country, and reduced his support in Parliament. DeGaulle thought institutional changes would bring stability back: he proposed to remove all legislative functions from the Senate and increase regional representation and power. Since his referenda had always been successful, he thought he would succeed, but three quarters of the départements (French equivalent of states) voted against it. DeGaulle resigned as President and was substituted by Georges Pompidou, a former Prime Minister, that DeGaulle had removed from power (Kedward, 2005).

The participation of immigrants in the strikes of 1968, and DeGaulle's resignation, brought important changes to immigration in France. The foreigners who participated in the protests were arrested and “transported to their frontier of choice” arguing it was a matter of national security (Freeman, 1979, 85). No selective immigration policy was implemented after the government change: both DeGaulle and Pompidou were members of the UNR, a right of center party, and the consequences of the recession were more strongly felt in the labor market than in the budget deficit. In summary, none of the conditions that the theory presented in chapter one suggests would make the implementation of a selective immigration policy more likely.

**The oil embargo: A halt in immigration flows**

**Political Parties**

1974 was a very active political year in France. The President that had succeeded DeGaulle, Georges Pompidou, died in office on April 2, 1974 and elections were called for May of the same year. Immigration policy was not the main campaign issue, in part because the positions of the front runners did not differ much: Valéry
Giscard D’Estaing, a Gaullist and member of the Independent Republicans, talked about improving the living conditions of immigrants. And, his closest opponent, François Mitterrand, a Socialist, had a platform that promoted improvements in living conditions of immigrants in the short run, and in the long run the implementation of improvements for labor; such as reduction of work hours, and advancement of retirement age, reforms which in his opinion would limit immigration by themselves (Freeman, 1979, 96). The election was very close. In the first round, Mitterand came first, and Giscard D’Estaing second, with almost 10% less of the vote. However, in the second round, Giscard D’Estaing won with only 50.8% of the vote, against Mitterand’s 49.19%. (Kedward, 2005, 454-456).

While the election was not won or lost on the basis of the candidates positions regarding immigration, the government of Giscard D’Estaing brought some of the most important changes in immigration, such as stopping recruitment of foreign workers. His position was to restrict immigration numbers in order to better provide them with welfare benefits, in contrast with left of center governments in less generous welfare states, who, according to the theory presented in this dissertation, would be more likely to restrict the type of immigrants, and not the total number of foreign workers. In France, high-skill workers would have still implied higher government spending since they would be eligible to receive government provided welfare, regardless of their income.

**Immigration policy**

The most drastic change in immigration policy in France came on July 3, 1974, when a newly appointed secretary of state for immigration, André Postel-Vinay announced a temporary ban on all immigration of temporary workers (Money, 1999, 112). While one of the rationales for restricting immigration was the economic crisis
caused by the oil embargo, Postel-Vinay wanted time to implement new measures to improve the conditions of immigrants in France. He demanded the construction of 15,000 additional lodgings reserved for immigrants, a plan with a cost of a billion francs. Postel-Vinay resigned and was replaced by Paul Dijoud, who made the ban on temporary workers permanent in October, with the goal of stabilizing immigration at its current level (Freeman, 1979, 96-97).

While the halt in immigration occurred during an important financial crisis, the reforms was not to implement a more selective policy, but to be able to provide better welfare to immigrant workers already in the country. Implementing a points system at this point in France would not have reduced the fiscal impact of immigrants since even high-skilled immigrants would have been eligible for government welfare. In a liberal welfare state, in contrast, since the welfare state is means-based, and not universal high-skilled immigrants are fiscally beneficial in times of bad economic environments.

**Fiscal crisis**

As in the rest of the world, the oil embargo had a negative economic impact in France, that was worsened by the end of the French colonies in Africa. France’s response was to oppose the American position in the oil conflict and trying to form ties with Arab countries. According to Kahler (1982), Giscard D’Estaing’s logic was that any improvement in the oil supply brought to France because of diplomatic maneuvers would be helpful to avoid a long term deficit on the balance of payments. Besides trying to improve relations with Arab countries, France’s strategy in face of the crisis was to increase trade with developing countries (Kahler, 1982). While the halt in immigration recruitment in 1974 was also part of the attempt to face the crisis (Hollifield, 1992), it was not an central component of the anti-recession plan,
in the same way it was in other countries (such as Australia, which implemented a points system that year). One of the reasons for this might be that the impact of the crisis in France was increasing the external deficit (which was already high because of decolonization), more than causing a budget crisis, and a selective immigration policy would not be effective to improve the trade balance, but would be effective in a liberal welfare state to improve the fiscal balance.

The 1980s: The Mitterrand era

Political parties

Presidential elections were called for April of 1981. While a couple of years before, Giscard D’Estaing looked like the obvious winner, conflicts in Africa made his popularity decrease. The main campaign issue was unemployment and Mitterrand, a Socialist, proposed to create thousands of new jobs in the public sector. Immigration was again not a factor by which we could differentiate the two front runners: both of them proposed to improve the living conditions of foreigners already living in France, but to restrict new labor flows. In the first round, Giscard D’Estaing polled only slightly higher than Mitterrand (28.5% vs. 25.8%), in part because the other prominent gaullist at the time, Jacques Chirac ran under a new party Rassemblement pour la République (Rally for the Republic, RDR) that he created when he left the UDF because of disagreements with Giscard D’Estaing. Chirac called his party the legitimate heir of DeGaulle, and the split in the Gaullist vote clearly hurt Giscard D’Estaing. In the second run, Mitterrand won 51.7% of the vote. For the first time since the Fifth Republic was created, Gaullists didn’t control the Presidency. After winning, Mitterrand dissolve the National Assembly and called for elections, giving
the Socialists absolute majority in Parliament, without the need to create a coalition with the communists (Kedward, 2005, 476-484).

According to the main theory presented in chapter one, left of center candidates, such as François Mitterrand, are more likely to implement selective immigration policies, such as a points system, as a way to avoid painful cuts in the welfare state. However, in a corporatist welfare state such as France where the eligibility for government provided welfare is not based on economic need (means-based), but is universal a points system would not necessarily help fund the welfare system. High-skilled immigrants would use the welfare system, so even if they pay more taxes than low-skilled immigrants, the fiscal impact on the welfare state would be smaller. As a consequence, Mitterrand’s attempted to fund extensions in the welfare state, not through selective immigration, but through tax increases (Kedward, 2005, 486).

Fiscal crisis

The arrival of a socialist government offered people hope for solutions to the French sluggish economy during the 1970s. Those feeling were short lived. Between 1976 and 1979 the French economy grew, on average, over 3% a year, in contrast with growth rates averaging 1% from 1980 to 1985, inflation rates exceeded 13% and the budget deficit rose to over 100 billion francs (Tuppen, 1988, 3). The response of Mitterrand was to launch an austerity plan, strengthening the Franc, and modernizing industry (Kedward, 2005, 493-495). Because a fundamental part of his platform was the extension of the welfare state, and the creation of employment through government growth, spending cuts were not central to the socialist government, which made increasing public income necessary. Mitterrand achieved that through tax increases on the rich (Kedward, 2005; Tuppen, 1988), but it was not enough to compensate the increase in public spending. A points system would have helped fund the extension
of the welfare programs, but only under a system in which welfare programs were targeted at the poor -such as a Liberal Welfare State-, not in a welfare system with more universal eligibility, such as France.

**Immigration Policy**

Mitterrand brought to France not only socialism to France, but also changes in immigration. He did not attempt to remove the ban implemented in 1974, but he introduced several changes to immigration during his first year in office. The first one was a reform of the 1945 law in two areas: exemption from repatriation for minors and guaranteeing due process of law for foreigners. The second one was the implementation of penalties for employers hiring illegal immigrants, and the third one extended freedom of association rights to foreigners (DeLey, 1983, 202-206). While these reforms were very prominent, Mitterrand also implemented changes in terms of selective immigration policy and the relation of immigrants with the welfare state. First, the Exceptional Regularization of 1981-1982 stated that all undocumented immigrants that arrived in France before 1981, and could produce a valid work contract would be eligible for regularization (DeLey, 1983; Menz, 2009). This law had the purpose of rewarding those immigrants that were contributing economically to France. The second measure related to the welfare state was the implementation of a special education program for foreign children, the extension of social security benefits to immigrants, particularly but not exclusively, for those that had just arrived in France from Lebanon and Poland to escape political turmoil (DeLey, 1983, 209).

The immigration reforms implemented by Mitterrand were selective in the sense that they favored immigrants that were employed and contributing economically to France, regarding of skill level. But they were not fiscally beneficial since welfare benefits for immigrants were extended further. According to the main theory pre-
presented in chapter one, in a liberal welfare state, such as Canada, the United States, or Great Britain, high-skilled immigrants contribute more in taxes than what they receive in government provided benefits because welfare programs are directed at the poor. However, in a welfare system in which welfare benefits are universal and more generous, such as France, the fiscal distinction between high and low skilled immigrants becomes so small that using selective immigration policies to fund the welfare state is not an option as effective as tax increases.

**L’immigration choisie: The attempt to implement a points system**

**Political parties**

The 2002 French Presidential Election has been one of the most important in terms of immigration issues. For most of the campaign, polls predicted that the candidates that would go to the second round would be Jacques Chirac (RPR) and Lionel Jospin (Socialist), but surprisingly the two front-runners ended up being Chirac and Jean-Marie Le Pen from the Front National an extreme-right anti-immigration party. The difference between Jospin and Le Pen was very small: around 200,000 votes or 0.6% of the total vote (Miguet, 2002, 209). The reason behind this electoral surprise was the large number of candidates, 16 to be exact, running for the presidency, the consequence of which was fragmentation in the electorate, and particularly in the left along with a low turnout (Miguet, 2002). Le Pen’s platform was based on crime and unemployment and blamed foreigners from both, arguing the way to fix both was to deport all immigrants living in France. He had even made public statements arguing all races were not equal, and dismissed the Holocaust as a historical detail. The “earthquake” caused by Le Pen’s second place in the first round mobilized several
voters, in the left and the right, who expressed their opposition to Le Pen in several marches, as large as those of 1968 with slogans such as “Youth Against the Extreme Right” and “I’m Ashamed of Being French.” Many of these marches were supported by all the other political parties, who asked their voters to support Chirac (Golsan, 2003). On the second round, Chirac won with 82% of the vote, the largest presidential majority in history, and the UMP (the traditional Gaullist Party, which Chirac had abandoned in the 1970s to create his own party) obtained the majority of seats in the National Assembly and reunited with the RPR to create a single Gaullist party, making Jean Pierre Raffarin the Prime Minister (Miguet, 2002, 213). The impact of this election in terms of immigration cannot be dismissed. The outcome of the first round indicated that for a considerable portion of the electorate immigration policy was perceived to be too lax and insufficient. So immigration became one of the main issues in Chirac’s second term. He appointed Nicolas Sarkozy as Minister of the Interior with the mission to reform the country’s immigration system (Marthaler, 2008).

**Fiscal crisis**

During his presidency, Chirac show little interest on economic matters. While the economy grew moderately during his government, public debt and unemployment continued to be chronic issues. Unemployment was consistently around 10% and around 22% for young workers. High unemployment levels, particularly for the young means less contributions to public welfare and retirement programs (Boisgrollier, 2006). This is worsened by the lack of competitiveness of some French industries in
the global market, even though during part of the Chirac government a weak Euro helped exporters, and the 35 hour week which he didn’t reform.\(^\text{13}\)

The fiscal needs of the French government to fund retirement and welfare programs could have been ameliorated by a selective immigration policy, as described in chapter one, but that would only be possible under a less generous welfare system. High-skilled immigrants in France would still be eligible for most government provided welfare, and even if their tax contribution is higher than the contribution of low skill immigrants, their fiscal impact at reducing the fiscal deficit and funding retirement and welfare programs would be marginal at best because the French government would have to fund access to the welfare system for those new immigrants.

**Selective Immigration Policy**

Sarkozy proposed two main immigration bills during his tenure as Minister of the Interior. The first one in 2003 (Law 2003-119 of 26 November 2003 on immigration control, the residence of aliens in France and nationality) had the goals of restricting the number of illegal immigrants and asylum-seekers. This law was an attempt to appeal to Le Pen’s voters in order to neutralize the Front National political power (Marthaler, 2008; Menz, 2009).

The second *Loi Sarkozy* (Law 2006-911 of 24 July 2006 on immigration and integration) proposed just after the immigrant riots in the Parisian suburbs, was the first attempt to implement a selective immigration policy in France. Sarkozy’s emphasis was on selective immigration (*l’immigration choisie*) rather than imposed immigration (*l’immigration subie*). The latter was made up asylum-seekers and family reunification, while the latter would be tailored to the economic needs of the country with

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\(^{13}\)“Chirac’s Legacy is a Challenge for his Successor”, by Matthew Lynn, *Bloomberg*, March 13, 2007
highly qualified workers who would be selected though a points system (Marthaler, 2008). Sarkozy’s argument was that immigration in France had a negative connotation because it wasn’t linked to the country’s needs. His logic was that in countries with selective immigration policies xenophobia and extreme right parties are weaker than in France, so selective immigration would be a defense against racism.\textsuperscript{14} This original received very strong opposition from the Socialists and other opposition parties, opposed the idea of selective immigration as Sarkozy originally described it. The bill went through over 300 amendments in the National Assembly and the Senate, before the final version was approved, which instead of a points system included a three year visa, similar to the American H1-B, a (\textit{carte de compétences et talents}). Since the left opposed it, among other issues, under the argument that it would hurt developing countries, potential immigrants had to sign an agreement that they would return to their country of origin (Murphy, 2006).

While the final law had little similarities with selective immigration systems in liberal welfare states, it was the first time since the halt in temporary immigration recruitment in 1974 that immigration policy in France was linked to the economy, and that immigrants were talked about because of their economic contribution. Furthermore, as Menz (2009, 148) explains, it meant a return to “actively solicited and chosen economic migration.” Nonetheless, a more decisively selective immigration policy, such as a points system, would be more likely to happen under a different type of government and a different type of welfare system. The pressure to move to the ideological right to neutralize Le Pen made Chirac’s government more conservative, and points systems, according to the theory presented in chapter one, tend to be implemented by left of center governments that are trying to help fund their welfare

\textsuperscript{14} “Sarkozy justifie l’immigration “choisie” ” \textit{Le Figaro}, April 28, 2006

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system. Furthermore, Sarkozy’s proposal didn’t restrict access to welfare benefits to recipients of the *cartes de compé tences et talents*, so using this immigration reform as a fiscal policy would have been inefficient.

### Conclusions

Like Germany, France was also close to implement a points system, however, given the political and economic situation at the time the event was unlikely to succeed. Unlike their counterparts in the United States, immigrants in France are eligible for many of the same welfare programs than citizens enjoy. As a consequence, the gap between the fiscal contribution of highly and low skill immigrants is smaller than in liberal welfare systems, in which I predict the implementation of points systems is more likely. Furthermore, the election of 2000, forced the Gaullists to move further to the right to appeal to some of the Front National voters. As the theory presented earlier predicts, however, points systems are more likely to be proposed by left of center parties.

The French case is a clear example of the differences in immigration in more generous welfare states, where policy is less motivated by fiscal reasons (since the welfare benefits are seen as a fundamental right, even for immigrants) than by other issues. In such cases, therefore, we observe restrictions in the number of immigrants admitted (for example, the French halt in immigration recruitment in the 1970s) than restrictions in the type of immigrants the country is likely to attract.
This dissertation started with a discussion on policy divergence in globalization, and it seems appropriate to end it talking about the same issue. Some of the literature in International Political Economy argues that we should expect to observe convergence in immigration policies because of a “race to the bottom” to compete for the taxes of high-skilled immigrants (Shachar, 2006). Others contend that trade and immigration are substitutes (Mundell, 1957), and as a consequence, if we observe convergence in trade policy the same should occur for immigration. In reality, however, we observe a wide divergence in immigration policies: Some countries favor families, others favor foreigners of the same ethnicity, and some favor high-skilled immigrants. This dissertation attempts to provide an answer to this paradox by focusing on three domestic factors: the type of welfare state, the government ideology, and the fiscal situation of the country.

Using quantitative and qualitative historical approaches, I have found that the presence of these three conditions creates a very fertile environment for the implementation of points systems, which have been shown to attract more high-skilled
immigrants (Borjas, 1999). That was the case in Canada, the first country to implement a points system in 1967, when Leaster Pearson, a Liberal, implemented this system after the Coyne Affair caused a spike in the budget deficit, as was described in Chapter 3. In contrast, only a subset of these conditions was present in Germany in 2002, a more generous welfare state than Canada, but also with a fiscal crisis and a left of center government. Germany failed to implement a points system, in part because of procedural mistakes in the Bundesrat. However, the German case shows that while the presence of all three conditions provides a more likely environment for the implementation of a points system, each of these conditions help increase the probability of a successful reform towards points system.

As a conclusion, labor flows are different from other globalization issues in the way they affect the domestic political and economic environment. Immigrants live and work in the communities where they pay their taxes and that in some cases will provide welfare benefits for them. This is very different from the impact of trade or capital inflows: with the reduction in tariffs and the race to the bottom in capital taxes the fiscal impact of these factor movements is much smaller than for immigration. As a consequence, participants in the debate over policy divergence should pay attention to domestic factors.

I believe the theory and findings of this project can inform not only the literature on the political economy of immigration, but also other areas of globalization by highlighting the importance of looking at political and economic variations at the domestic level to understand variation at the international level. Furthermore, while political scientists have shown how globalization constrains domestic political and economic factors, this dissertation turns the causal arrow around and shows that domestic factors also constrain globalization, which can help provide insights into
further research on the relation between global economic policies and the nation state.
Bibliography


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