

IMMIGRATION:  
An Economic Analysis

Joshua J. Tam  
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Recent political elections in the United States have brought immigration to the epicenter of political discourse. There have been calls for immigration reform from all across the political spectrum. As immigration has become more of a hot-button issue in the media, many misconceptions have proliferated in the discourse. These misconceptions are fueled by disinformation. Cries to halt illegal immigration are backed by good intentions. However, eventually those opinions must come to grips with economic reality. There is much disagreement regarding which immigration policy should be implemented, but across the political spectrum, economists generally agree that immigration is economically beneficial. This paper seeks to analyze the economic worth of immigration – despite misconceptions – and provide a policy proposal based on those conclusions.

There are three main misconceptions about the economics of immigration. First, immigrants displace American workers. Second, immigrants depress American wages. Third, immigrants are a net drain on the economy. A discussion of each will include responses and analysis of the economic literature. However, before a discussion on the economics of immigration, it may be helpful to establish why people immigrate/emigrate. People may immigrate/emigrate for a number of reasons. Ludwig von Mises observed that migration is about improving one's condition. Mises writes,

Primary production and industry migrate from places of lower-yielding conditions of production to places of higher-yielding ones; and with them migrate capital, so far as it is mobile, and workers. The result for the movement of peoples is thus the same in either case: the stream of population goes from the less fruitful territories to the more fruitful. That is the basic law of migrations of persons and peoples.<sup>1</sup>

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<sup>1</sup> Ludwig von Mises, *Nation, State, and Economy: Contributions to the Politics and History of Our Time* (New York: New York University Press, 1983), 85.

Such is the nature of migration. Next, examine the economic misconceptions surrounding the immigration debate.

### **Do immigrants displace American workers?**

The first main misconception is that immigrants displace native-born workers. Often included in this rhetoric is the word “steal.” The claim that immigrants ‘steal’ jobs from the native population has been stated so often that it has become accepted by many as an economic fact. This claim is popular because it is easy to see when an immigrant takes a job that used to be held by a native-born worker. However, such a myopic view misrepresents reality. In truth, there is more to the story than this claim suggests.

First, not all labor is the same. It is not accurate to argue that every job held by an immigrant is a job lost by an American. Such an argument relies on the assumption that immigrant skillsets are perfect substitutes for American skillsets. This assumption is false because not all labor is homogeneous. Immigrants can possess different skillsets from American workers. Such immigrant labor complements American labor. However, not all immigrant labor is different from American labor either. In some cases, immigrant labor is similar to American labor. In such cases, the former may substitute the latter. After all, there are definitely Americans who have the ability to work low-skilled farming jobs just as well as immigrants can. However, many Americans do not prefer to seek employment in such jobs because they can earn more in other jobs. According to Maria Machuca, a spokeswoman for the United Farm Workers in Washington, D.C., “[H]ard labor in the fields isn't going to attract legal residents or native-born Americans who have other options that,

for some, include waiting out a bad economy at home by collecting unemployment checks.”<sup>2</sup> Thus, it is not that Americans cannot work low-skilled jobs. Rather, many Americans just have better options. Low-skill jobs are one area where immigrants may compete with the native-born population for jobs. Although immigrants may compete with Americans in low-skill jobs, one critical advantage that Americans have over immigrants is English speaking skills. Many immigrants (especially those from Mexico) to the United States are not proficient in English. Therefore, even if immigrants displace low-skilled American labor, there are still important low-skilled labor jobs that require English speakers. This leads to increased job opportunities for low-skilled workers who can speak English. Eduardo Porter, writing for *The New York Times* explains, “Not speaking English, the newcomers might bump their American peers from manual jobs...But they couldn’t aspire to jobs that require communicating with consumers or suppliers. Those jobs are still reserved for the American-born. As employers invest more [in]...the new source of cheap labor, they will also open new communications-heavy job opportunities for the natives.”<sup>3</sup> Therefore, it is important to note the heterogeneity when comparing the skillsets of immigrants with that of Americans.

Second, many of the low-skilled jobs that immigrants work do not pay very much. Some immigration critics counter that Americans would be more inclined to work low-skilled jobs (for example, in the agricultural industry) if the wages were higher. This claim relies on a big “if.” Not all employers of low-skilled laborers are willing to increase wages for these jobs. Additionally, when some employers have increased wages in the past, not much changed. California, for instance, is one of the largest producers of the nation’s agricultural commodities. In fact, according

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<sup>2</sup> Monica Alonzo, “A Shortage of Mexican Laborers Threatens Arizona Farming,” *Phoenix New Times*, August 25, 2011, <http://www.phoenixnewtimes.com/news/a-shortage-of-mexican-laborers-threatens-arizona-farming-6450291>.

<sup>3</sup> Eduardo Porter, “The Danger From Low-Skilled Immigrants: Not Having Them,” *The New York Times*, August 8, 2017, <https://www.nytimes.com/2017/08/08/business/economy/immigrants-skills-economy-jobs.html>.

to the California Department of Food and Agriculture, the golden state produces over a third of the country's vegetables and two-thirds of the country's fruits and nuts.<sup>4</sup> In California, wages for crop production have increased nearly 50% since 1996 according to the Bureau of Labor Statistics.<sup>5</sup> However, according to the Los Angeles Times, "[T]he raises and new perks have not tempted native-born Americans to leave their day jobs for the fields. Nine in 10 agriculture workers in California are still foreign born, and more than half are undocumented, according to a federal survey."<sup>6</sup> Consequently, it would not be correct to argue that Americans will take low-skilled jobs if the wages were higher.

Third, if wages for low-skilled labor were higher, it is possible some of the job opportunities would not exist. For example, farmers in Arizona were forced with the decision to hire more expensive American labor to harvest crops or not hire anyone and let their crops go to waste. The farmers decided to cut their losses and go with the latter option. Consequently, Arizona saw approximately 70% of the 2004 lettuce crop left in the ground to rot. The losses totaled nearly \$1 billion. Farmers could have paid higher wages to harvest the crops but the losses would have been greater.<sup>7</sup>

Fourth, if immigrants really did steal jobs, many more people would be unemployed. Proponents of the "immigrants steal jobs" argument believe that immigrants enter the work force and take jobs that used to belong to Americans. If this were true, then the economy should see increases in unemployment anytime more people enter the work force. Since World War II, the

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<sup>4</sup> "California Agricultural Production Statistics," *California Department of Food and Agriculture*, 2016, <https://www.cdfa.ca.gov/statistics/>.

<sup>5</sup> Natalie Kitroeff, Geoffrey Mohan, "Wages rise on California farms. Americans still don't want the job," *Los Angeles Times*, March 17, 2017, <http://www.latimes.com/projects/la-fi-farms-immigration/>.

<sup>6</sup> *Ibid.*

<sup>7</sup> Benjamin Powell, "An Economic Case for Immigration," *Library of Economics and Liberty*, June 7, 2010, <http://www.econlib.org/library/Columns/y2010/Powellimmigration.html>.

U.S. economy has seen a tremendous influx of new workers enter the labor force. Who are these workers? These workers are women, baby boomers, and immigrants. Economist Benjamin Powell writes, “[T]he civilian labor force grew from around 60 million workers in 1950 to more than 150 million workers today.”<sup>8</sup> If the argument that immigrants steal jobs is true, this mass increase in the number of workers should lead to long-term increases in unemployment. Yet, as Powell writes, “[T]here has been no long-term increase in the unemployment rate. In 1950, the unemployment rate was 5.2 percent, and in 2007, the year before the current recession started, the unemployment rate was 4.6 percent.”<sup>9</sup> Clearly, the logic behind this myth does not stand. The fifth reason in the following paragraph elaborates more on why the U.S. economy did not see massive unemployment.

Fifth, the labor market is not a fixed pool of jobs. The massive addition of new workers since 1950 did not cause massive unemployment because jobs are continually added and removed from the market. The idea that there is a fixed number of jobs is sometimes called the “lump of labor” fallacy. This view assumes that there is only so much work to be done in the world. Walter Block explains, “[T]his economic view holds that the peoples of the world only require a limited amount of labor in their behalf. When this amount is surpassed, there will be no more work to be done, and hence there will be no more jobs for the workers.”<sup>10</sup> It might seem obvious the “lump of labor” view is fallacious. However, for those who believe immigrants “steal” jobs, it is easy to fall victim to this flawed line of reasoning.

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<sup>8</sup> *Ibid.*

<sup>9</sup> *Ibid.*

<sup>10</sup> Walter Block, “Defending the Rate Buster,” *Mises Institute*, June 23, 2010, <https://mises.org/library/defending-rate-buster>.

Sixth, immigration creates jobs. As stated in the previous paragraph, the labor market is not a fixed pool of jobs. As more immigrants enter the United States, the demand for goods and services rises. The demand rises because immigrants themselves have wants and needs. Consequently, their demand for goods and services leads to an increased demand for the labor to produce such things. According to a study by Giovanni Peri, the Chair of the Economics Department at the University of California, Davis, “When the economy is growing, new immigration creates jobs in sufficient numbers to leave native employment unharmed, even in the relatively short run and even for less-educated native workers.”<sup>11</sup> The fact that the economy has not seen massive long-term unemployment despite the mass influx of workers since 1950 shows this to be true.

Seventh, the idea of “outsourcing” makes the argument of job “theft” non-unique. If people from other countries are able to work for American corporations from their respective home countries, then the problem of immigrants stealing jobs is moot. For example, an American company can hire a person in India to work remotely from India. The person can work for the American company regardless of U.S. immigration law because he/she is not emigrating to the U.S. However, stricter immigration policies only provide more incentives for companies to hire abroad. Tyler Cowen writes, “[I]f you’re worried about outsourcing, you should probably have a more liberal rather than a less liberal attitude toward immigration. If the United States takes in more immigrants, the areas in which those immigrants work are less likely to see jobs outsourced abroad. Immigration makes it possible to keep those jobs at home.”<sup>12</sup> There is a dichotomy between outsourcing and immigration. For example, if immigration laws become more restrictive

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<sup>11</sup> Giovanni Peri, “The Impact of Immigrants in Recession and Economic Expansion,” *MPI Labor Markets Initiative*, (Washington, DC: Migration Policy Institute, June 2010).

<sup>12</sup> Tyler Cowen, *Average Is Over: Powering America Beyond the Age of the Great Stagnation* (New York: Penguin Group, 2013), 169.



by reducing the number of H-1B visas awarded, American companies are more likely to hire people abroad to do the work that could have been done domestically if not for the reduction in work visas. Stuart Anderson, the executive director of the National Foundation for American Policy writes, “Economists understand the dynamic between outsourcing and immigration...New restrictions on the ability of IT services companies to hire people on H-1B visa holders or to transfer in employees with specialized knowledge will end up increasing the amount of work that is performed outside the United States.”<sup>13</sup> Furthermore, having immigrants work here is more preferable to companies outsourcing. Edward Conard, an adjunct fellow at the American Enterprise Institute, writes,

American companies already employ many of those engineers, who work remotely using tools like Skype. When companies employ these workers offshore, Americans don’t enjoy the benefit of the income-tax revenues they’d pay—for the top 20% of U.S. taxpayers, \$50,000 a year more than the government services they consume. America needs that revenue. Nor does the rest of America’s workforce get the opportunity to teach their children, wait on their tables, or treat their medical needs. Growth can raise wages across all skill levels.<sup>14</sup>

By having immigrants work in the U.S., the United States reaps tax revenue and economic benefits. If companies outsource, the United States does not experience these gains. Thus, having immigrants work in the U.S. is better than hiring them to work from their home country. The likelihood that the latter occurs is only increased by more restrictive immigration policy. Nonetheless, the argument that immigrants steal jobs fails to see that today’s technology allows people to work remotely. Restrictive immigration policy cannot stop American companies from

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<sup>13</sup> Stuart Anderson, “If You Want Less Outsourcing, Then Increase Immigration,” *Forbes*, June 10, 2017, <https://www.forbes.com/sites/stuartanderson/2017/06/10/if-you-want-less-outsourcing-then-increase-immigration/#7e62acdf4349>.

<sup>14</sup> Edward Conard, “America’s Got Talent, but Not Nearly Enough,” *The Wall Street Journal*, August 16, 2017, <https://www.wsj.com/articles/americas-got-talent-but-not-nearly-enough-1502924335>.

contracting employees abroad. Consequently, the argument that immigrants “steal” jobs is made non-unique by the fact that companies can hire overseas anyways.

Eighth, given that recent American graduates are trending away from STEM fields, it appears America could use more highly-skilled immigrant workers to fill those positions. Conard writes, “The highest-scoring American students have increasingly moved away from STEM fields—science, technology, engineering and math—toward business and law. America’s success relative to Europe and Japan—both of which produce a greater share of STEM graduates—indicates that innovation requires a combination of STEM and commerce to succeed.”<sup>15</sup> Furthermore, according to a report on the American labor force from the Bureau of Labor Statistics, “The last decade has seen considerable concern regarding a shortage of science, technology, engineering, and mathematics (STEM) workers to meet the demands of the labor market.”<sup>16</sup> The claim that immigrants steal jobs does not seem likely considering the number of positions available. CNBC reports, “As of 2016, the U.S. had roughly 3 million more STEM jobs available than it had skilled workers to fill them, according to Randstad data.”<sup>17</sup> This shortage of high-skilled workers impacts other industries that depend on higher-skill workers. Conard writes, “The economic effects of this talent deficiency hurt low-skilled workers, who depend on high-skilled workers to design and manage competitive products and processes that employ them.”<sup>18</sup> Given the shortage of workers in high-skilled industries, immigrants do not seem to be prohibiting Americans from landing these jobs. In reality, American students are trending more towards other

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<sup>15</sup> *Ibid.*

<sup>16</sup> Bureau of Labor Statistics, “STEM crisis or STEM surplus? Yes and yes,” *Monthly Labor Review*, May 2015, <https://www.bls.gov/opub/mlr/2015/article/stem-crisis-or-stem-surplus-yes-and-yes.htm>.

<sup>17</sup> Ruth Umoh, “The US has a shortage of tech workers. Here's how kids and schools can solve the problem,” *CNBC*, August 23, 2017, <https://www.cnbc.com/2017/08/23/why-we-have-a-shortage-of-tech-workers-in-the-u-s.html>.

<sup>18</sup> Conard.

fields of study such as business and law. However, high-skilled labor industries may not be the only industries to experience labor shortages.

Ninth, the United States may be experiencing a shortage of low-skilled workers as well. The Wall Street Journal Editorial Board notes, “Employers in a myriad of industries including construction, agriculture and hospitality are facing a severe labor shortage.”<sup>19</sup> Many economists have observed this trend in studies. According to a report by The Brookings Institution,

Looking toward the future of U.S. low-skilled immigration, there are forces at work likely to weaken pressures for labor inflows that will remain in place for the next several decades. By the mid-1970s, the size of U.S. cohorts coming of working age was growing much more slowly than in Mexico and the rest of Latin America, creating steady pressure for migration to the United States. However, by the mid-2000s this demographic push factor had largely disappeared. Because U.S. neighbors to the south are today experiencing much slower labor-supply growth, the future immigration of young low-skilled labor looks set to decline rapidly...<sup>20</sup>

This trend is observable in the most recent available labor market data. According to the Bureau of Labor Statistics monthly Jobs Openings and Labor Turnover Summary, there were 6.0 million jobs unfilled at the end of October 2017.<sup>21</sup> This is important considering the difference low-skilled immigrant labor makes in the economy. As labor economists Pia M. Orrenius and Madeline Zavodny note, “[L]ess-skilled immigrants make a vital economic contribution in that they have very high employment rates and fill jobs that few Americans want while providing services that many Americans demand.”<sup>22</sup> The combination of shortages in high-skilled labor and low-skilled

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<sup>19</sup> “How to Increase Illegal Immigration,” *The Wall Street Journal*, August 4, 2017, <https://www.wsj.com/articles/how-to-increase-illegal-immigration-1501888489>.

<sup>20</sup> Gordon Hanson, Chen Liu, Craig McIntosh, “Along the watchtower: The rise and fall of U.S. low-skilled immigration,” *The Brookings Institution*, March 23-24, 2017, [https://www.brookings.edu/wp-content/uploads/2017/03/2\\_hansonetal.pdf](https://www.brookings.edu/wp-content/uploads/2017/03/2_hansonetal.pdf).

<sup>21</sup> “Jobs Openings and Labor Turnover Summary,” *Bureau of Labor Statistics*, December 11, 2017, <https://www.bls.gov/news.release/jolts.nr0.htm>.

<sup>22</sup> Mark A. Thiessen, “Trump’s immigration vision isn’t the Reagan way,” *The Washington Post*, August 9, 2017, [https://www.washingtonpost.com/opinions/trumps-immigration-vision-isnt-the-reagan-way/2017/08/09/e09969b2-7c68-11e7-83c7-5bd5460f0d7e\\_story.html](https://www.washingtonpost.com/opinions/trumps-immigration-vision-isnt-the-reagan-way/2017/08/09/e09969b2-7c68-11e7-83c7-5bd5460f0d7e_story.html).

labor in the United States is cause for some concern. Given that these jobs are waiting to be filled, it appears the United States could use more high and low-skilled labor. Nonetheless, it seems clear that immigration is not stopping Americans from working these jobs. Therefore, immigrants are not really “stealing” jobs from Americans.

### **Do immigrants depress American wages?**

The second main misconception about the economics of immigration is that immigrants depress the wages for the native-born population. Proponents of this argument contend that since immigrants increase the supply of labor, the price of everyone’s labor decreases. This argument, however, oversimplifies the issue.

First, there is not just one supply of labor. There are many different labor markets. As stated before, not all labor is homogeneous. Many immigrants have different skillsets from the skillsets Americans have. When immigrants possess different skillsets from those of Americans, they complement American labor instead of substituting for it.

Second, immigrants increase supplies of labor in various labor markets but they also increase demand for labor in labor markets. The argument that immigrants depress wages because they increase the supply of labor in the labor markets looks only at one aspect of the phenomenon. The same immigrants who enter the American labor force also demand goods and services. Consequently, they increase the demand for those goods and services, causing the demand for labor to increase as well. As the demand for labor increases, it is very likely the price of labor

(wages) will increase as well. This a classic case of what Frédéric Bastiat calls the “what is seen and what is not.”<sup>23</sup>

Third, researchers have not found a significant effect on the wages of native-born workers. If the argument that immigrants depress wages is true, a look into the history of wage statistics should reveal this. However, according to Rachel Friedberg and Jennifer Hunt,

Despite the popular belief that immigrants have a large adverse impact on the wages and employment opportunities of the native-born population, the literature on this question does not provide much support for this conclusion... Most empirical analysis of the United States and other countries finds that a 10 percent increase in the fraction of immigrants in the population reduces native wages by at most 1 percent.<sup>24</sup>

Some may contend that the immigrants in the study were not close enough substitutes to make a difference. If the immigrants were closer substitutes to American labor, perhaps wages would decrease significantly. However, the study found, “Even those natives who should be the closest substitutes with immigrant labor have not been found to suffer significantly as a result of increased immigration.”<sup>25</sup> Since the time of the Friedberg and Hunt study, more research has been conducted on the issue. A 2017 study from the National Academies of Sciences, Engineering, and Medicine found, “When measured over a period of 10 years or more, the impact of immigration on the wages of native-born workers overall is very small.”<sup>26</sup> Although the impact on the wages of the native-born workers is very small, it is worthy to note that studies have found some impact on other groups. The next paragraph expounds on this observation.

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<sup>23</sup> Frédéric Bastiat, *Selected Essays on Political Economy* (NY: The Foundation for Economic Education, Inc., 1995).

<sup>24</sup> Rachel M. Friedberg, Jennifer Hunt, “The Impact of Immigrants on Host Country Wages, Employment and Growth,” *Journal of Economic Perspectives*, Vol 9, No. 2 (1995): 23-44.

<sup>25</sup> *Ibid.*

<sup>26</sup> National Academies of Sciences, Engineering, and Medicine, “The Economic and Fiscal Consequences of Immigration,” (Washington, D.C.: The National Academies Press, 2017).

Fourth, although most of the available economic literature demonstrates that immigration does not have a significant effect on the wages of native-born workers, there is some evidence that suggests new immigrants may reduce the wages of prior immigrants and low-skilled native-born workers. According to the National Academies of Sciences, Engineering, and Medicine study, “To the extent that negative impacts occur, they are most likely to be found for prior immigrants or native-born workers who have not completed high school—who are often the closest substitutes for immigrant workers with low skills.”<sup>27</sup> The negative impact on these workers is likely to occur because there is no change in the money relation. An increase in the total demand for all goods and services requires a change in the money relation. Since immigrants increase the population and no new money is added to the economy, the demand for money rises and prices/wages must fall. Prior immigrants and low-skilled workers are the most likely to see their wages decrease because their labor is often the closest substitute for the new immigrants’ labor. Although there are studies showing small deleterious effects on low-skilled and prior immigrants, it is worth noting that some studies conclude otherwise. One such study from the Institute of Labor Economics found, “[C]ontrary to the evidence in the existing literature of some small negative impact on lower skilled native labour, our results show that when using matched employer-employee data, there is actually a strong positive impact of immigrants on native hiring when matching the two groups at each skill level.”<sup>28</sup> The economic literature on the issue is mixed. Some economists find some negative impact on the wages of low-skilled American workers and prior immigrants while other economists find no such impact. Nonetheless, the argument that immigrants depress wages for Americans in general is still a far cry from economic reality.

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<sup>27</sup> *Ibid.*

<sup>28</sup> Pedro Martins, Matloob Piracha, José Varejão, “Do Immigrants Displace Native Workers? Evidence from Matched Panel Data,” *Institute of Labor Economics*, June 2012, Discussion Paper No. 6644, <http://ftp.iza.org/dp6644.pdf>.

Fifth, there is one instance of mass migration into the United States that has many prominent economists riled up in the debate of immigration's effect on wages: the Mariel Boatlift. In 1980, Fidel Castro allowed about 125,000 Cubans to emigrate to the United States. Most of these immigrants landed in Miami, Florida. In 1990, David Card, an economist at the University of California, Berkeley, conducted a landmark study on the mass migration. Card found that the influx of Mariel immigrants increased the Miami labor force by 7%. Based on his research, Card concluded,

[T]he influx of Mariel immigrants had virtually no effect on the wage rates of less-skilled non-Cuban workers. Similarly, there is no evidence of an increase in unemployment among less-skilled blacks or other non-Cuban workers. Rather, the data analysis suggests a remarkably rapid absorption of the Mariel immigrants into the Miami labor force, with negligible effects on other groups. Even among the Cuban population there is no indication that wages or unemployment rates of earlier immigrants were substantially affected by the arrival of the Mariels.<sup>29</sup>

These findings were influential in changing the way economists thought about immigration. Following Card's research, most economists were convinced immigrants do not depress wages of the native-born population. One very notable economist, however, took issue with Card's research. This economist is George Borjas, a professor at Harvard University's Kennedy School of Government. Borjas is perhaps the most prominent immigration skeptic. Borjas released his own study in response, contending that the mass migration from the Mariel Boatlift had a larger effect on the wages of less-skilled workers than Card thought. Borjas writes,

The examination of wage trends among high school dropouts quickly overturns the "stylized fact" that the supply shock did not affect Miami's wage structure. In fact, the absolute wage of high school dropouts dropped dramatically, as did their wage relative to that of either high school graduates or college graduates. The drop in the average wage of the least skilled Miamians between 1977-1979 and 1981-1986 was substantial, between 10 and 30 percent...<sup>30</sup>

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<sup>29</sup> David Card, "The Impact of the Mariel Boatlift on the Miami Labor Market," *Industrial and Labor Relations Review*, Vol. 43, No. 2. (Jan. 1990), pp. 245-257.

<sup>30</sup> George J. Borjas, "The Wage Impact of the *Marielitos*: A Reappraisal," *ILR Review* 70, no. 5: 1077-1110.

This paper drew much criticism from the economics community. Card and many other researchers disagreed with Borjas' research. Following the publication of Borjas' paper, economists Giovanni Peri and Vasil Yasenov of the University of California, Davis released their own study, calling into question Borjas' research methodology. In the study, Peri and Yasenov write,

[T]he drop in wages for male, non-Hispanic, 25-59 years old in March-CPS relative to its pre-1979 trend, which constitutes Borjas' (2017) key piece of evidence, appears, when embedded in a complete picture of all subgroups, as a likely manifestation of measurement error that affects the smaller sub-groups... Moreover, in the light of recent criticism by Borjas (2017) who finds, instead, a large and delayed wage effect, we show that choosing small sub-samples and matching Miami with a control group based only on two years of pre-Boatlift history can be misleading.<sup>31</sup>

Other economists found yet more problems with Borjas' research. Upon looking into U.S. Census Bureau statistics, Michael Clemens and Jennifer Hunt found that the Census Bureau changed its methods for calculating populations of certain demographics. The two believe that Borjas' claim of wage decreases was certainly a result of the discrepancy in the Census Bureau's calculation methods. They concluded, "As a whole, the evidence from refugee waves reinforces the existing consensus that the impact of immigration on average native-born workers is small, and fails to substantiate claims of large detrimental impacts on workers with less than high school."<sup>32</sup> All in all, a survey of the available economic literature reveals research supporting both sides of the debate on whether immigration depresses wages of low-skilled workers and prior immigrants. However, most of the research findings point to the likelihood that immigration has minimal impact on these types of wages. Nevertheless, it is clear that most, if not all, economists dispute the claim that immigrants depress the wages of all natives in general.

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<sup>31</sup> Giovanni Peri, Vasil Yasenov, "The Labor Market Effects of a Refugee Wave: Applying the Synthetic Control Method to the Mariel Boatlift," *National Bureau of Economic Research*, NBER Working Paper Series 21801, December 2015, 27- 34, <http://www.nber.org/papers/w21801.pdf>.

<sup>32</sup> Michael A. Clemens, Jennifer Hunt, "The Labor Market Effects of Refugee Waves: Reconciling Conflicting Results," *The National Bureau of Economic Research*, NBER Working Paper Series 23433, July 2017, 2, <http://www.nber.org/papers/w23433.pdf>.



**Are immigrants a net drain on the economy?**

The third main misconception about immigration is that immigrants are a net drain on the economy. This argument concerns immigration—legal and illegal—as a whole. It contends immigration produces net economic losses. Of the three misconceptions discussed in this paper, this misconception is the most erroneous.

First, there is little to no evidence supporting this misconception. On the other hand, there is an abundance of evidence to the contrary. Economists on both sides of the political spectrum believe that immigration is economically net beneficial. Even Harvard's George Borjas, who is clearly a skeptic of immigration, believes immigration is economically net beneficial. Borjas writes, "Using a well-known formula in economics (a variation on the theme of the so-called Harberger triangle), we can estimate that immigration increases the real income of natives, but only by about 0.2 percent. U.S. natives' economic gains from immigration, therefore, are relatively small: about \$22 billion per year (in 2003 dollars)."<sup>33</sup> In 2013, Borjas updated his calculation to adjust for inflation and other factors. He found that immigration—legal and illegal—yields a net \$35 billion per year in gains to the native-born population.<sup>34</sup> This gain may seem like a drop in the bucket compared to the \$18.5 trillion American economy. However, as Powell points out, this statistic could be higher but is not for two reasons.<sup>35</sup> First, Borjas' method of calculation may not yield the most optimal number. Other economists' methods of calculations have shown larger gains. Second, the economic gain is limited by the government's current immigration policy. If,

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<sup>33</sup> Borjas, "Immigration," *The Concise Encyclopedia of Economics*, 2008, <http://www.econlib.org/library/Enc/Immigration.html>.

<sup>34</sup> Borjas, "Immigration and the American Worker: A Review of the Academic Literature," *Center for Immigration Studies*, April 2013, 2, <https://cis.org/sites/default/files/borjas-economics.pdf>.

<sup>35</sup> Powell, "An Economic Case for Immigration."

for example, the number of H-1B visas awarded each year were increased, the economic gains would be larger. It is worth noting this calculation only refers to economic net benefits to the native-born population. Borjas calculates that the presence of all immigrants in the labor market boosts the U.S. economy by an estimated \$1.6 trillion each year.<sup>36</sup> At the time of his calculation, \$1.6 trillion accounted for 11% of the U.S. GDP.

Second, while it is unlikely that immigration as a whole is a net drain on the economy, it is somewhat more plausible that *illegal* immigration results in net economic losses. Opponents of immigration may contend that legal immigration is beneficial whereas illegal immigration is not. It is common to hear complaints that illegal immigrants do not pay taxes and, therefore, do not contribute. This claim is slightly more plausible than the initial argument. However, some studies show that even illegal immigration is beneficial. Borjas estimates illegal immigrants contribute \$9 billion a year to the native population while contributing as much as \$472 billion to the U.S. economy as a whole.<sup>37</sup> It is important to note that each person does not experience these benefits equally. These economic benefits are net gains to the economy as a whole. Therefore, some will undoubtedly experience more gains than others.

### **Immigration and Protectionism**

In discussions on the topic, “immigration” and “protectionism” are sometimes mentioned in the same sentence. Some policy-makers pair immigration restrictions with protectionist measures as part of certain economic frameworks. However, these two policies actually work contrary to each other. A policy of restricting trade between two nations is likely to prevent the

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<sup>36</sup> Borjas, “Immigration and the American Worker: A Review of the Academic Literature”, 21.

<sup>37</sup> *Ibid.*

economic progression of one country, thereby creating an environment that fosters the desire to emigrate from that country.

The goal of immigration policies is to restrict the movement of people between two or more nations. The goal of protectionist measures is to restrict trade between two or more nations. If goods and services cannot move across borders, then people are more likely to move in order to reach those goods and services. For example, if trade restrictions between the United States and Mexico were implemented, Mexico's economy would suffer. This exacerbates the environment that already causes people to want to leave Mexico to come to the United States. Consequently, the protectionist measures create the very problem that calls for more restrictive immigration policies.

The combination of protectionist measures and immigration policies is especially worrisome. It is almost inevitable that one will lead to the other. Murray Rothbard commented on the relationship between immigration policies and protectionist restrictions. In *Man, Economy, and State*, Rothbard writes, "The process of equalizing wage rates, though hobbled, will continue in the form of an export of capital investment to foreign, low-wage countries. Insistence on high wage rates at home creates more and more incentive for domestic capitalists to invest abroad."<sup>38</sup> Having restrictive immigration policies will lead to further investment abroad. For advocates of these policies, investment abroad poses an economic problem. For the interventionist, the natural solution is to try to protect the domestic economy with protectionist measures. This might mean punishing companies for investing abroad with additional corporate taxes. One example of such a protectionist measure is the repatriation tax, which taxes companies' profits that are 'repatriated'

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<sup>38</sup> Murray Rothbard, *Man, Economy, and State*, 2<sup>nd</sup> ed., (Auburn: Ludwig von Mises Institute, 2009), 1109.

back to the United States. Restrictive immigration policies and protectionist measures each almost inevitably create problems that call for the implementation of the other. This is not wise policy decision-making.

## Policy Reform

The current administration's platform is not one that embraces immigration. President Donald Trump's current immigration policy does not recognize the economic benefits of immigration. Instead, his administration pushes the narrative that less immigration—both legal and illegal—is better for the United States. The administration has propagated some of the misconceptions about immigration discussed in this paper. Building a large wall on the U.S.-Mexican border, while perhaps backed by good intentions, is itself built on false notions about the economic worth of immigration. Additionally, the administration's plan to cut legal immigration by half is another policy that completely misses the mark. It fails to recognize immigration's economic worth.<sup>39</sup> As Tho Bishop of the Mises Institute points out, this policy's aim is "blatant protectionism."<sup>40</sup>

Any immigration policy reform should be aimed at taking advantage of the economic benefits of immigration. How should Congress and the President take advantage of immigration's economic gains? One simple way to increase these gains from immigration is to increase the number of H-1B visas awarded.

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<sup>39</sup> Peter Baker, "Trump Supports Plan to Cut Legal Immigration by Half," *The New York Times*, August 2, 2017, <https://www.nytimes.com/2017/08/02/us/politics/trump-immigration.html>.

<sup>40</sup> Tho Bishop, "Trump is Wrong on H1-B Visas," *Mises Institute*, <https://mises.org/blog/trump-wrong-h1-b-visas>.

The H-1B program allows American companies hire highly-skilled foreign workers. These workers operate in fields such as science, engineering, and information technology. Recipients of H-1B visas are permitted to live and work in the United States for a finite amount of time.<sup>41</sup> However, there is a cap on the number of H-1B visas awarded each year. Currently, the cap on H-1B visas is set to 85,000 each year. One promising proposal is to raise the cap to 195,000 visas each year and make the cap flexible. Increasing the cap to 195,000 visas would bring substantial economic gains to the economy and making the cap flexible based on the economy would ensure that the cap met the needs of labor market. The cap was previously raised to 115,000 visas in 1999 and to 195,000 visas in 2001. However, these increases were only temporary. Returning the cap to 195,000 would deliver more economic gains and ensure that employers get the workers they need. The current policy makes it difficult for companies to hire these highly-skilled workers. According to the Harvard Business Review, “It is not exactly easy for many companies to obtain H-1B visas, and members of the tech industry have lobbied Congress to raise the cap on H-1B visas to help meet demand. In 2008 Bill Gates testified before Congress to advocate for more H-1B visas to help compensate for “a deficit of Americans with computer science degrees.””<sup>42</sup> Diem Salmon and James Sherk of The Heritage Foundation found that by increasing the cap to 195,000, ‘Congress would allow companies to fill vital positions and enable them to expand within the United States, which avoids the problem of companies outsourcing work or moving overseas.’<sup>43</sup> Additionally, The Heritage Foundation calculated that raising the cap to 195,000 would increase tax revenues

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<sup>41</sup> “H-1B Fiscal Year (FY) 2018 Cap Season,” *U.S. Citizenship and Immigration Services*, <https://www.uscis.gov/working-united-states/temporary-workers/h-1b-specialty-occupations-and-fashion-models/h-1b-fiscal-year-fy-2018-cap-season>.

<sup>42</sup> Nicole Torres, “The H1-B Visa Debate, Explained,” *Harvard Business Review*, May 4, 2017, <https://hbr.org/2017/05/the-h-1b-visa-debate-explained>.

<sup>43</sup> Diem Salmon, James Sherk, “Increasing the Cap for H-1B Visas Would Help the Economy,” *The Heritage Foundation*, March 31, 2008, <http://www.heritage.org/jobs-and-labor/report/increasing-the-cap-h-1b-visas-would-help-the-economy>.

by nearly \$69 billion over eight years.<sup>44</sup> Increasing the H-1B cap and making it reflect the needs of the marketplace would provide these economic gains. Congress and the President should pursue this immigration policy reform.

## Conclusion

In conclusion, a survey of economic literature finds that immigration is beneficial to the economy on net. Additionally, the fears of the economic effects immigration are for the most part not based on economic data. Immigration does not, in general, displace native-born workers or depress their wages. Studies show that immigrants pose little to no threat to the native-born population.

The current administration's immigration policy is not consistent with the economic findings since it aims to decrease immigration. It is clear that immigration is economically beneficial on net. Therefore, any policy proposal should aim to increase, rather than decrease, immigration. Expanding the H-1B visa program to allow for more high-skilled workers is one step in the right direction. Permitting more of these workers to work in the United States would bring about strong economic benefits.

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<sup>44</sup> Guinevere Nell, James Sherk, "More H-1B Visas, More American Jobs, A Better Economy," *The Heritage Foundation*, April 30, 2008, <http://www.heritage.org/immigration/report/more-h-1b-visas-more-american-jobs-better-economy>.

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