

# The Economics of Immigration

ThinkTank Tuesdays: Wine, Water, and Policy Whimsy  
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## Outline

- **Why do people migrate?**
- **Pattern of immigration into the U.S.**
- **Economics of immigration**
  - Jobs and Wages
  - Tax revenue and expenditure implications
  - Overall economic growth
- **Other issues**
  - Crime
  - Specific government programs
  - Innovation and Entrepreneurship
- **Summary**

## Why do People Migrate?

- **Push factors:**
  - Economic dislocation, domestic violence, population pressures, religious persecution, or denial of political rights.
- **Pull factors:**
  - Potential for higher wages, job opportunities, and political or religious liberty.
- **Uneven Development:**
  - Disparities in income, standards of living, and the availability of jobs within and across societies.



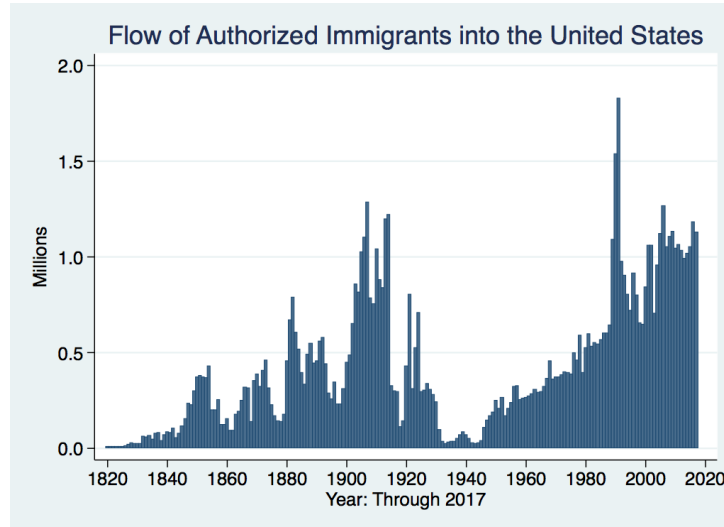
## Why do People Migrate?

### Levels of Decision-Making

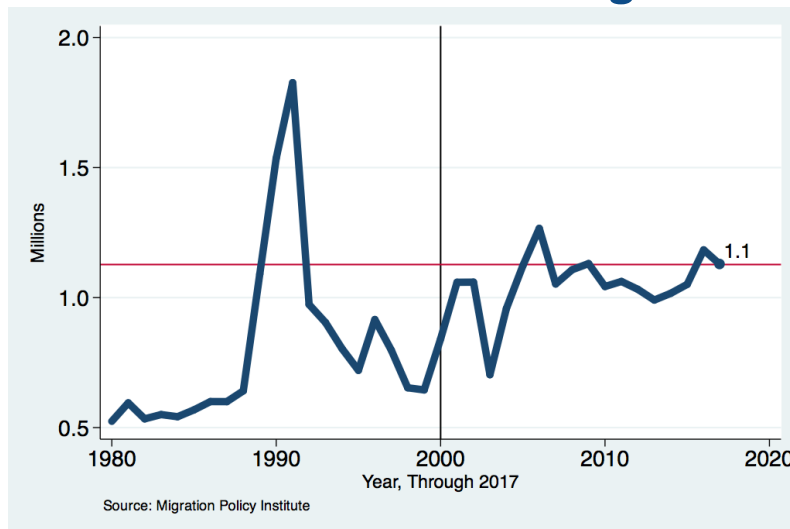
- **Individual level:**
  - Economic opportunity, escape social turmoil.
- **Family level:**
  - Desire of the family to improve its security or level of economic well-being.
  - “Remittances”
- **Structural or Institutional:**
  - War, better information about opportunities, easier transportation, income differentials between countries.
  - Changes in immigration policies.



# Historical Trends in Authorized Immigration



# Recent Trends in Authorized Immigration

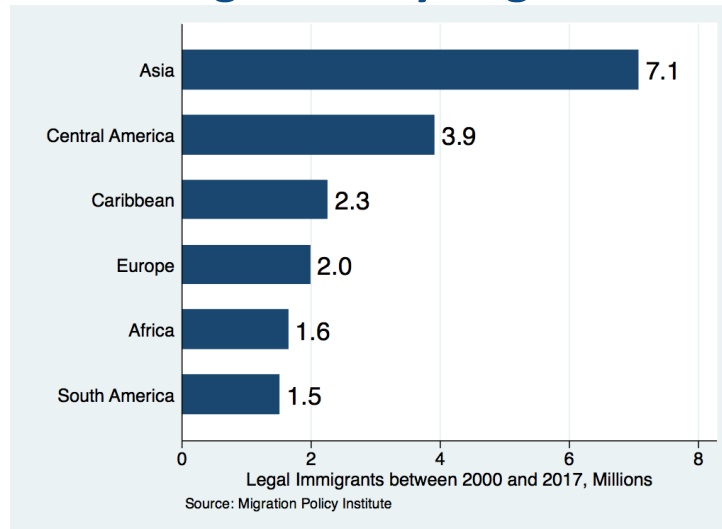


Source: Migration Policy Institute

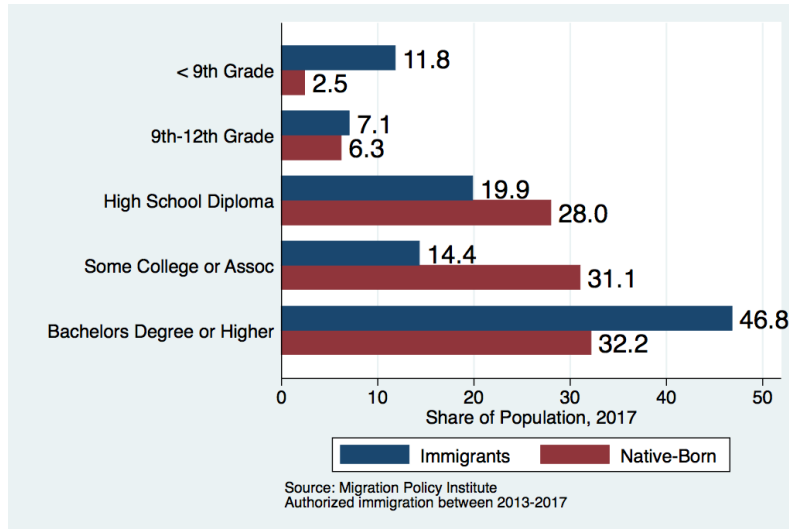
## Persons Obtaining Lawful Permanent Resident Status by Region of Birth, 2017

Region of Birth	Number
Total	1,127,167
Africa	118,824
Asia	424,743
Europe	84,335
North America	413,650
Oceania	5,071
South America	79,076
Unknown	1,468

## Authorized Immigration by Region

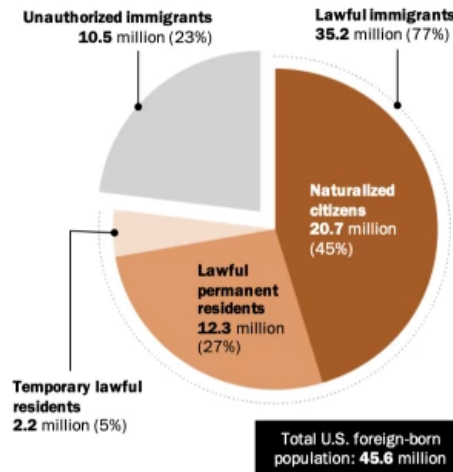


## Recent Immigrants are Well Educated

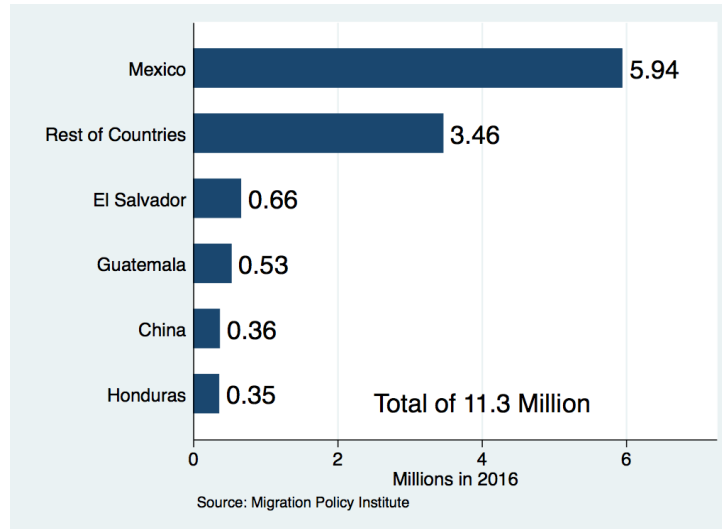


## Immigrant Population in 2017

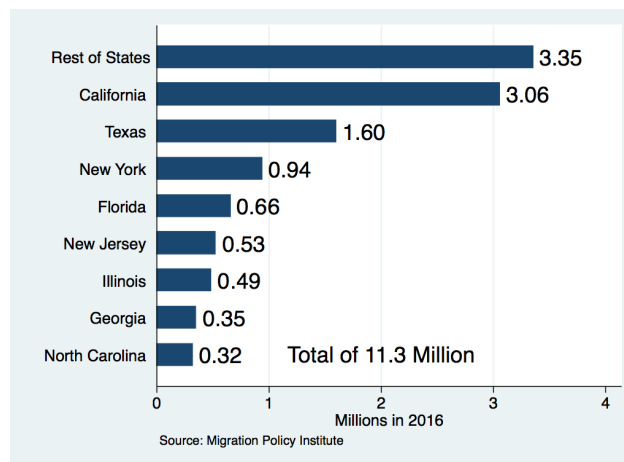
Foreign-born population estimates, 2017



## Unauthorized Immigration: Source Countries

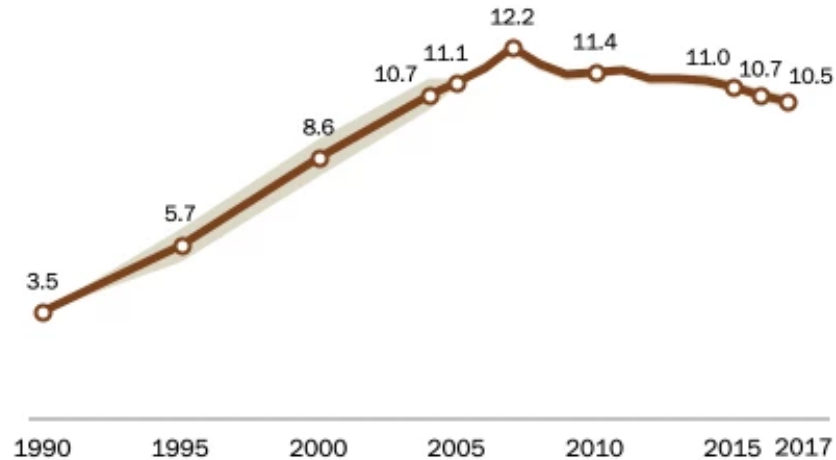


## Unauthorized Immigration: Where They Live



## U.S. Unauthorized Immigration Totals

*In millions*



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<https://www.pewresearch.org/fact-tank/2019/07/12/how-pew-research-center-counts-unauthorized-immigrants-in-us/>

13

## Why Do We Care? Economic Implications

- **Labor Markets**
- **Government revenue and spending**
- **Overall economic growth**
- **Two sets of implications**
  - Aggregate effects: The size of the pie
  - Income distribution: The slices of the pie



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14

## Labor Market Implications: Complicated

- **Depends on the type of immigrant: Skills/education**
  - Similar to native-born population?
  - Low-skilled?
  - High-skilled?
- **Brings with it capital market implications**
  - Low-skilled – capital supplementing
  - High-skilled – capital complementing



## Immigration is Similar to Trade

- **Trade**
  - Allows production to be brought to where the low wage workers are.
- **Immigration**
  - Allows workers to move to where high wage jobs are.
- **Both:**
  - Equalize wages across geographies
  - Lower prices
  - Increase overall economic activity





## Labor Market Implications

- **Provides net benefits to the receiving economy**
  - Larger labor supply.
  - Changes in labor prices increase production of goods that use the type of labor offered by immigrants.
- **Short run: there are winners and losers**
  - Changes in wage structure and returns to capital affect native-born workers differently.
- **Long run: could be no winners, but also no losers**
  - The economy might adjust to pre-immigration wage structure and returns to capital. No change for native-born individuals.



## Labor Market Implications: Basic Case

- **Suppose the immigrants have the same skills as the native-born population in a city**
  - Short run: some workers are losers
    - Higher ratio of labor to capital.
      - Wages decline and returns to capital rise.
  - Long run: there are no losers
    - Capital flows into the city
      - Because the returns are now higher here than elsewhere
    - The original ratio of labor to capital is restored.



## Labor Market Implications: Low Skilled Immigrants

- **Suppose the immigrants are less skilled than the native-born population in a city**
  - Short run: *low skilled* workers are losers
    - Supply of low skilled workers goes up, so their wages go down.
  - Long run: there need not be any losers, but there may still be
    - Prices adjust
      - Purchasing power of low skilled workers need not be lower.
    - Opportunities for low skilled native-born workers expand as the economy expands.
      - Greater demand for English proficient workers.



## Labor Market Implications: General Principles

- **Short run**
  - Harm will likely result for native-born workers that are similar to the immigrants.
  - Benefit will likely result for other workers and owners of capital.
- **Long run**
  - Lower prices will restore some of the purchasing power of those harmed.
  - Expanded opportunities may restore wages of harmed native-born workers.
  - Inflows of other types of labor and capital may return the economy to its pre-immigration wage structure and production patterns.



## Labor Market Implications: The Surplus

- **Short run**

- Harm will likely result for native-born workers that are similar to the immigrants.
- Benefit will likely result for other workers and owners of capital.

- **Long run**

- Lower prices will restore some of the purchasing power of those harmed.
- Expanded opportunities may restore wages of harmed native-born workers.
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- **The Surplus**

- Immigration CAN make all native-born workers and capital more productive.
- This increases incomes of the native-born.

## Labor Market Implications: Evidence of Surplus

Type of Immigrants	Surplus: % of GDP	
	Short Run	Long Run
No Skill Bias	0.24 to 0.50	0.02 to 0.03
Low skilled	0.45 to 0.90	0.42 to 0.77
High skilled	0.75 to 1.35	0.16 to 0.31

## Summary of Labor Market Effects

- **Immigration CAN lead to negative wage effects for competing native-born workers**
  - Particularly high school dropouts and those in vulnerable communities.
- **Other workers will likely benefit**
  - Through increased wages.
  - Through increased opportunity.
- **Owners of capital will benefit**
  - Existing capital will earn greater returns.
  - More if immigrant labor complements existing capital.



## Pathway of Wage and Employment Effects

Inflows of Low Skilled Immigrants



Previous Immigrants



Disadvantaged Workers



Native HS Dropouts



Order of Impact

Impact is negative,  
But is smaller  
at each step.

**Positive influence on wages and employment of other workers.**



## **GDP: How Does This Work?**

- **What determines the size of an economy?**
  - Technology/productivity
  - Physical capital
  - The number of workers
    - Immigration adds to the number of workers.
- **Number of immigrants in the labor force is large**
  - 25.7 million foreign-born persons ages 16+ in the labor force in 2014.
  - 16.5% of the total U.S. Workforce.
- **Evidence**
  - Immigrants added 11% to GDP (\$2 Trillion) in 2016.



## **Government Revenues and Expenditures**

- **Important factor for understanding whether immigrants will be net contributors to the nation.**
- **Two additional reasons:**
  - Taxpayer inequities across geographies.
  - Necessary to understand the full consequences of admitting additional immigrants into the country.



# Topics?

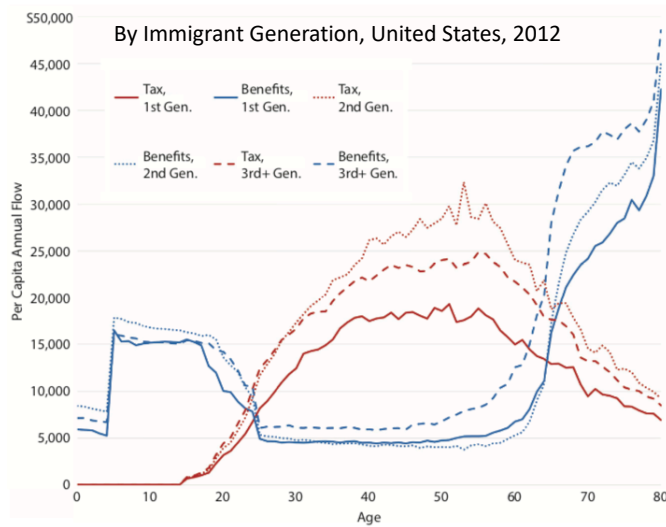
- **Basic Question:**

- Taxes (income, sales, and other) immigrants pay vs government expenditures on public benefits and services they receive.

- **More complicated:**

- Immigrants also affect the fiscal equation for many natives.
  - o Indirectly through labor and capital markets.
  - o Changes in wages and the return to capital.

# Age-Specific Taxes and Benefits



## What Do We Know?

- **Immigrants arriving while of working age:**
  - Are, on average, net contributors.
  - 21-year-old with a high school diploma: +\$126,000 over lifetime
    - Though this value gradually declines with age at arrival.
    - Turns negative for arrivals of age 35+
- **Net contribution depends crucially on characteristics**
  - Age distribution, family composition, health status, fertility patterns
  - Temporary or permanent relocation
  - Employment on the legal labor market
  - Documented or undocumented



## Bottom Line/Consensus of Estimates

- **Federal level: fiscal impact is generally positive.**
- **State and local level: typically negative fiscal impact.**



## NON-Economic Implications

### Patterns of Integration

- Education
- Employment and Earnings
- Occupations
- Poverty
- Residential Integration
- Language
- Health
- Family Patterns

### The Big Misconception: Crime



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Source: *The Integration of Immigrants into American Society, 2015*

31

## Immigrants and Crime Rates

- Conventional wisdom:
  - Immigrants commit crimes more frequently than do native-born.
  - Rising immigration leads to rising crime.

### Let's Have A Look!

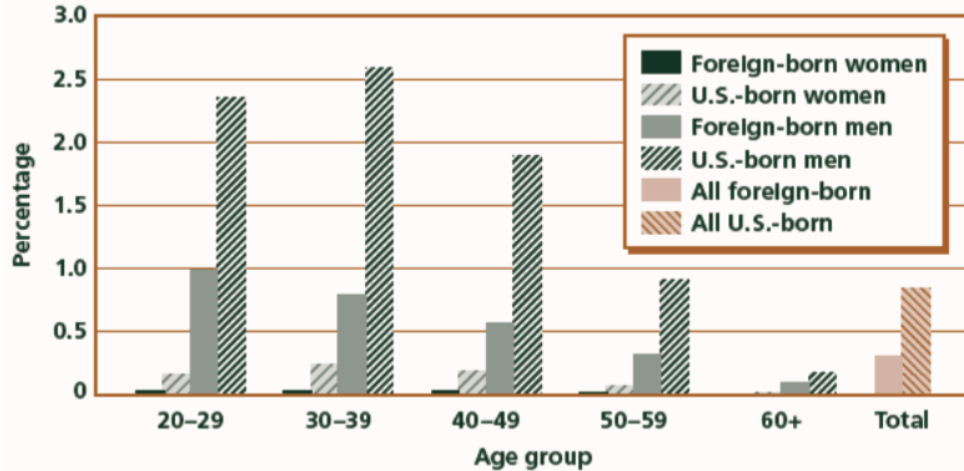


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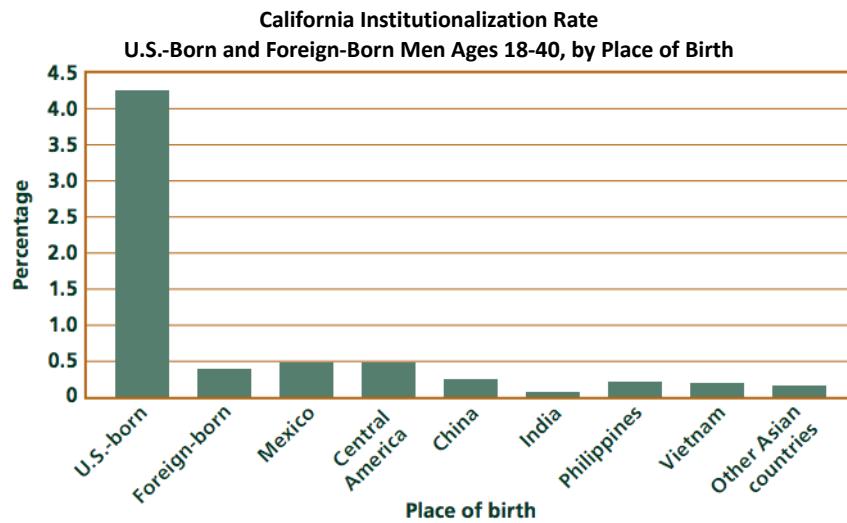
32



## Crime: Incarceration Rates in California



## Crime: Incarceration Rates in California



## Immigrants and Crime Rates

- **Conventional wisdom:**

- Immigrants commit crimes more frequently than do native-born.
- Rising immigration leads to rising crime.

- **What do the data say?**

- Rates of incarceration are lower for foreign-born than U.S.-born.
- Neighborhoods with more immigrants have lower crime rates.



## Implications for Major Federal Programs

- **Documented immigrants are less likely to use Social Security and Medicare.**

- **Medicaid: not available to legal residents for first 5 years.**

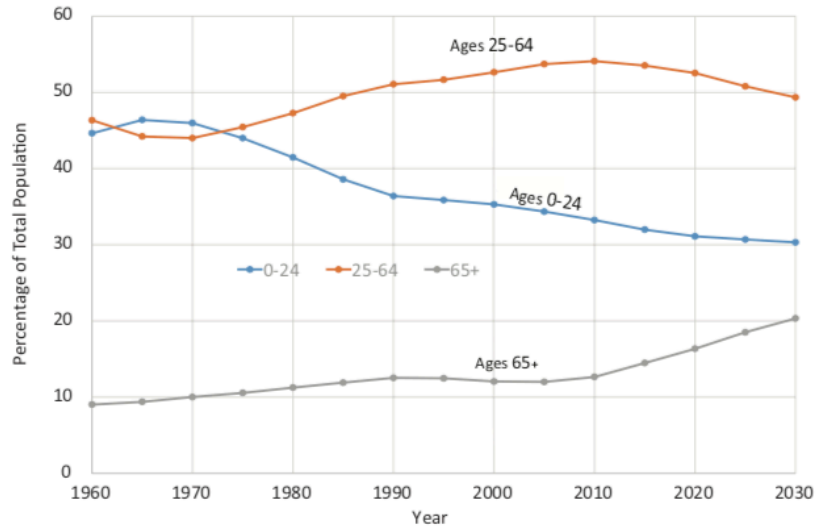
- **Undocumented immigrants are ineligible.**

- They will pay into the system, but will not receive benefits.

- **Provide a source of revenue for an aging population.**

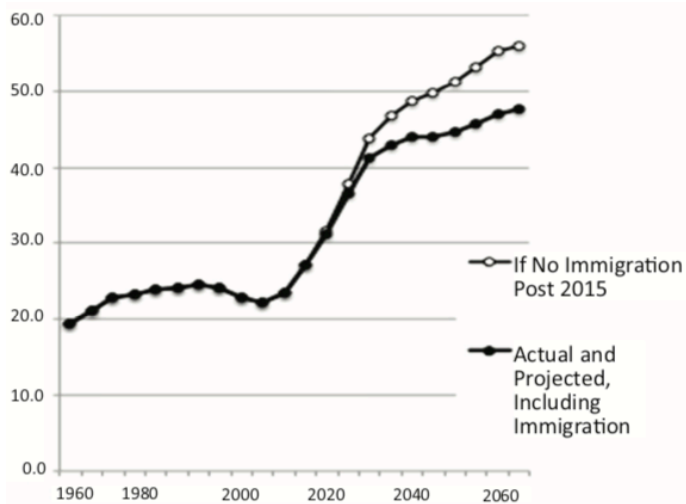


# The Aging US Population



# Implications for Social Security

Population Age 65+ per 100 Working Age (25-64)

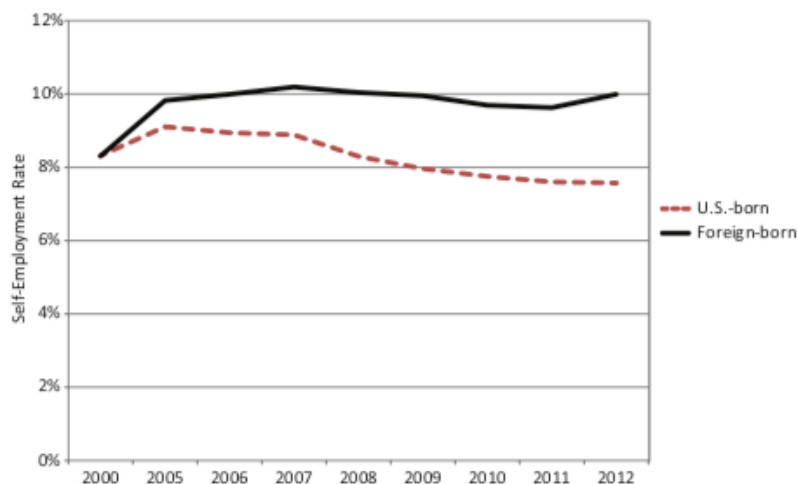


## Skilled Immigrants and Innovation

- **1% increase in immigrant college graduates' population share**
  - 9-18% increase in patenting per capita
  - May not all be due to immigrant patenting.
  - Increased immigration may increase patenting by native population.
  - Nonetheless, the effect is positive.
- **In the 1990s**
  - Increased skilled immigration can account for 1/3 of increased patenting in that decade.
  - This translates into a 1.4-2.5% increase in GDP per capita by the end of the decade.

## Immigrants and Entrepreneurship

Self-Employment Rates by Nativity



AT&T Facebook amazon.com Disney BOEING Ford Apple UPS Tesla CHASE J.P. Morgan PG&E LinkedIn IBM Alphabet

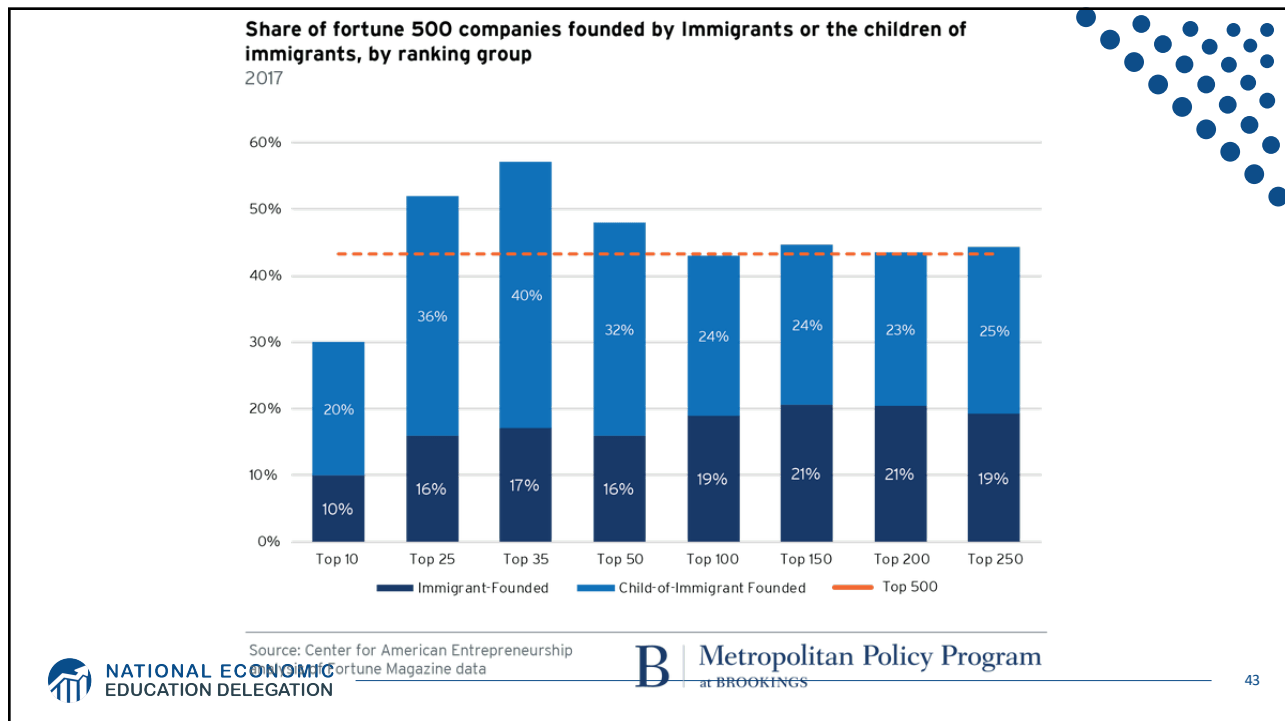
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### Fortune 500: 1<sup>st</sup> and 2<sup>nd</sup> Generation Founders

SHARE OF IMMIGRANT FOUNDERS IN THE FORTUNE 500

43%

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## Summary

- **From an economic perspective:**
  - Immigration should be thought of as increasing the population of the United States.
  - This brings with it economic growth and opportunity, just as increasing the native-born population.
  - Including unauthorized immigrants, the supply of low skilled workers is increased
    - This lowers the wages of low skilled workers.
    - But also increases labor force participation among skilled workers.

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44

## At the Same Time....

- **Immigrants are often a select group:**
  - Willing to incur an enormous personal or familial cost to better their lives.
- **As a result:**
  - Immigrants tend to commit crimes at low rates.
  - Immigrants tend to be entrepreneurial and to add significantly to economic growth.
- **Although there are distributional issues:**
  - Immigration is an important contributor to economic growth.
  - Immigration helps to sustain vital government programs.



Thank you!

## Any Questions?

[www.NEEDelegation.org](http://www.NEEDelegation.org)

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