

Immigration and the Economy

BY JOHN A. WEINBERG

In 1854, an editorial in the *Philadelphia Sun* worried that “the enormous influx of foreigners will in the end prove ruinous to American workingmen, by reducing the wages of labor to a standard that will drive them from the farms and workshops altogether.” Similar arguments have been heard throughout the United States’ history, and are heard today. Concern about the effect of immigration on native citizens’ wages and employment, as well as the potential burden on public services, is understandable. But the extensive economic literature on the subject suggests these concerns may be overstated, and that immigration on net has positive economic effects.

It’s true that the share of the population born outside the United States has increased significantly in the past half century, from less than 5 percent in 1970 to about 13 percent today, including those who immigrate both legally and illegally. (The peak was nearly 15 percent in 1890.) There’s also been a shift in immigrants’ country of origin since national quotas were eliminated in 1965: In 1960, 84 percent of immigrants were from Europe or Canada. Today, more than three-quarters of immigrants are from Southeast Asia or Latin America — 28 percent from Mexico alone.

Still, the number of unauthorized immigrants from Mexico fell by more than a million after the 2007 peak of 6.9 million, according to estimates based on Census data. That contributed to a drop in the total number of unauthorized immigrants from all countries, from 12.2 million in 2007 to 11.3 million in 2009. At least through 2014, the most recent year for which data are available, the unauthorized immigrant population was relatively flat, while the number of authorized immigrants continued to increase.

How do unauthorized immigrants affect net spending on public services? Looking at a large number of studies, the answer appears to be not much. It’s estimated that between 50 percent and 75 percent of unauthorized immigrants pay income taxes using either an Individual Tax Identification Number or a false Social Security number. They also pay property taxes; about one-third are homeowners, while others pay indirectly through rent. Combined with sales taxes, these payments help to offset federal, state, and local expenditures. And when immigrants’ descendants are included in the analysis, the net fiscal impact may actually be positive. Researchers also have found that immigrants pay more into Social Security and Medicare than they receive in benefits, which may be especially important as the U.S. population continues to age.

Unauthorized immigrants, who generally lack health insurance, do impose costs on hospitals, which are obligated to treat all emergency room visitors. But this arguably points to broader flaws in our health care system, rather than to an immigration problem per se.

While many people think of immigrants working in less-skilled jobs, in fact, U.S. immigrants are over-represented at both ends of the skill distribution. About one-third of STEM workers with a Ph.D. are foreign born, as are about 40 percent of workers without a high school diploma. And while there is a great deal of concern that immigrants — less-skilled immigrants in particular — take jobs away from natives, much empirical work shows that immigrants have little effect on native employment. Immigrants, especially those with less education, are more likely to compete with other immigrants than with natives of the same skill level.

The effect on natives’ wages also is small and in some cases slightly positive. This might seem counterintuitive — basic supply and demand would suggest that wages go down when there are more workers. But natives’ wages can increase to the extent that less- and more-skilled jobs are complements. For example, an increase in the supply of construction workers increases the relative demand for construction managers, and over time, natives tend to move into these higher-skill jobs. In addition, immigrants are consumers as well as workers, which can raise the local demand for labor.

Immigrants also increase the supply of, and lower the prices for, some services, which boosts the real income of natives. And those working in higher-skilled occupations contribute to long-run productivity gains and increased innovation; immigrants patent at about twice the rate of natives and may have positive spillovers on natives’ innovation. And more generally, faster population growth, whatever the source, tends to be associated with faster productivity growth over time. In addition, the aging population means that the growth rate of the labor force is slowing, and the working-age population is declining as a share of the total population, which contributes to slower per capita GDP growth. More working-age immigrants could help counteract this.

Of course, in the short run, there can be negative effects on some native workers. But labor market disruptions due to immigration are for the most part modest relative to the disruptions that regularly occur in dynamic markets. And like other disruptions, such as technological change, immigration also brings long-term economic benefits. These benefits to the host country — not to mention the benefits to the immigrants themselves — suggest that the most efficient way to address the distributional effects of immigration is not with barriers but rather with workforce development policies that help both current and future generations build up their own human capital and expand their labor market opportunities. **EF**

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