

## Political Economic Digest Series 29

Dear Political Economic Digest Series Participant,

Welcome to the twenty ninth issue of Political Economic Digest Series. In the last issue of Political Economic Digest Series we discussed on BOTSWANA'S GROWTH by Fiona Tregenna. This issue will cover readings on Immigration and its consequences.

The first reading "The Economics of Immigration: Who Wins, Who Loses and Why" by Christopher Matthews is focused on the relationship of immigration in the American society with wages, economic growth and its effect in the welfare system.

The second reading "Immigration reform is pro growth" by Larry Kudlow talks about how the reform in the immigration policy could benefit the overall economy.

The third and the fourth reading "The Role of Immigration in Innovation" and "Aligning Incentives, Sharing Gains" are extracts from a paper "Immigration and Economic Growth" by Gordon H. Hanson.

The fifth reading "Is Immigration Really the Problem?" by Stefano R. Mugnaini discusses several important points regarding immigration and immigrants.

We hope you enjoy the reading.

## The Economics of Immigration: Who Wins, Who Loses and Why

Christopher Matthews

Washington's focus has shifted to immigration reform this week as a bipartisan group of Senators put forward a comprehensive plan on Monday and President Obama followed with a proposal of his own yesterday. The debate thus far has been anchored around the bipartisan Senate proposal, the President's support for a "path to citizenship," and House Republican's opposition to it. The opposition to the plan so far has centered around concerns about such a deal inviting a new influx of undocumented workers, or its rewarding those who have violated the law. These are important discussions to have, but with the economy here at home still so fragile, many are wondering what sort of effect immigration has on the American economy.

Here's a look at four big questions concerning the economics of immigration:

### *Does immigration reduce wages for native-born Americans?*

It might seem like a no-brainer that increased immigration would reduce the wages of native-born Americans. A simple supply and demand model would tell you that more workers means lower wages. But the story is actually more complicated than that. According to a 2010 survey of the economic literature on the subject, the Brookings Institute concluded that, "The most recent academic research suggests that, on average, immigrants raise the overall standard of living of American workers by boosting wages and lowering prices."

How can it be that more workers competing over the same jobs can lead to higher wages? The reason is that it's not actually more workers competing over the same jobs. Immigration actually changes what jobs employers need to fill. For one, an influx of cheap labor can make certain businesses like farming or restaurants feasible. (Absent cheap labor, these firms simply could not compete with foreign rivals.) Second, immigrants not only supply labor, but demand it, too. And a larger domestic population through immigration creates more potential customers for business, as well.

### *Is immigration a drain on the welfare state?*

Another popular argument for maintaining tough restrictions on immigration is that without strict laws limiting immigration, unskilled workers would flock to America to take advantage of its relatively robust welfare state. The economic literature in this area yields conflicting conclusions and varies greatly depending on the country being studied. Some studies show that immigrants take out more in benefits than they pay in taxes, while other studies show the opposite. But George Mason University economist Bryan Caplan argues that the welfare state in America specifically dissuades folks from coming here purely for welfare benefits. First, writes Caplan:

*"Contrary to popular stereotypes, welfare states focus on the old, not the poor. Social Security and Medicare dwarf means-tested programs. Since immigrants tend to be young, they often end up supporting elderly natives rather than 'milking the system.' Illegal immigrants who pay taxes on fake Social Security numbers are pure profit for the Treasury. In 2005, Social Security's chief actuary estimated*

*that without all the taxes paid on invalid Social Security numbers, ‘the system’s long-term funding hole over 75 years would be 10 percent deeper.’”*

Second, Caplan points out that most government spending is what economists call “nonrival,” meaning that the government “can serve a larger population with little or no extra cost.” For instance, he argues, the United States military could adequately defend a population of twice the size of America for the same, or just slightly higher, cost. “An even clearer case,” Caplan writes, is “if the population of the U.S. doubled overnight, the national debt (not deficit) would remain the same, and the per capita debt would halve. The lesson: Immigrants can pull their own fiscal weight even if their tax bills are well below average.”

### ***Does immigration help the economy grow?***

The most important factor driving economic growth is innovation. To put it simply, if American workers and firms can figure out how to do their jobs more efficiently, we’ll see economic growth. And according to University of California economist Gordon Hanson, immigrants — specifically high-skilled immigrants — are great for innovation. Immigrants are more likely than native-born Americans to secure patents on new inventions or processes, and Hanson argues, immigrants can bring unique knowledge about foreign markets to American firms.

But it’s not just high-skilled immigrants who can help boost economic growth in America. According to Hanson, low-skilled immigrant workers can make the American economy more efficient as well. First of all, low-skilled immigrant workers are more willing to move to find work than native-born American workers. Writes Hanson:

*“Low-skilled U.S.-born workers tend to be immobile across regions. When, say, the demand for low-skilled labor picks up in North Carolina, native-born workers in other regions are slow to move in . . . The consequence of the immobility of low skilled labor is to gum up the labor market, slowing the pace of growth in booming regions and the pace of recovery in slumping regions.”*

In addition, an increase in low-skilled immigrant workers can also help to make the high-end of the labor force more efficient. Increasingly, high-skilled workers are women who are also married to high-skilled husbands. And an increase in low-skilled labor willing to do everyday housework like laundry, cleaning, and childcare frees these workers to spend time more productively at their jobs.

### ***Whom does immigration hurt then?***

Economists, as a rule, like to look at the big picture. And the vast majority of the economic literature argues that a more liberal immigration policy would be good for the U.S. economy as a whole. The problem is, of course, that not everyone is going to come out a winner. A particularly contentious issue as far as economists are concerned is the effect of immigration on low-income, native-born workers. As I mentioned before, the literature is divided on whether an increase in low-skilled immigrant labor hurts low-skilled native workers in the long-run or not.

But it’s almost certain that in individual cases there will be workers who get put out of work by immigrant competition. And these individual stories of hardship are a much more salient effect of

immigration than a slew of patents that make hundreds of products ever-so-slightly more efficient. In other words, the benefits of increased immigration will be spread out among the entire population, while the costs will be borne by a relatively small group of individuals who will feel the effects acutely.

In addition, we must not forget that there is more at stake here than purely economic considerations. Those who are opposed to more liberal immigration policies, or a “path to citizenship” for undocumented workers in America are concerned about ideas of fairness, the sanctity of the law, and the integrity of American culture. And these are all issues that will be debated openly and forcefully in the coming months as Congress considers the issue. But as these debates continue, it’s worth noting that mainstream economists mostly agree that more immigration is, on balance, good for the economy.

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Extracted from: <http://business.time.com/2013/01/30/the-economics-of-immigration-who-wins-who-loses-and-why/>

## Immigration Reform Is Pro-Growth

**Larry Kudlow**

At the end of the day, the battle over immigration reform is not about dollars and cents. It's about the soul of a nation. President Reagan reminded us that America must remain a "beacon" and a "shining city on a hill" for immigrants who renew our great country with their energy, while adding to economic growth and prosperity.

And here's a quote from Jack Kemp: "Americans and immigrants share the same value of work, family and opportunity. There is no reason to fear the newcomers arriving on our shores today. If anything, they will energize what is best about our country."

It strikes me that the Republican Party has lost its growth-and-opportunity message in recent years, and has replaced it with a very austere vision. Debt, deficits and budget-cutting all have their place in the economic-policy debate. But the GOP has forgotten that strong economic growth leads to a balanced budget, not the other way around.

The GOP must reclaim the growth-and-optimism message of Reagan and Kemp. Immigration reform is part of that message.

Too often, President Obama has the better growth-and-optimism message, even though he hasn't the foggiest idea about free-market incentives, free-enterprise innovation and the private-sector animal spirits that make the great American economic engine run. And while the GOP knows the difference between big government and private free-enterprise, its messaging is often confused, ambiguous and rather negative.

Immigration-reform proposals from Sen. Marco Rubio and others land squarely on the growth side of the debate. And I do find it interesting that the Congressional Budget Office -- no friend of supply-siders -- is touting the dynamic impacts of immigration on economic growth. In a letter to budget chair Paul Ryan, CBO said the failed 2006 immigration effort would have increased federal revenues more than direct spending. The Joint Tax Committee agreed. The dynamic idea is that immigration significantly increases the size of the U.S. labor force and that more workers mean more growth.

Former acting CBO Director Donald Marron made the same point in a recent blog post: "The direct economic effects of expanded immigration -- bigger population, bigger workforce, more wages -- were so straightforward that folks accepted this exception from the standard (static) protocol." (Static is my word, with my italics.)

Former CBO Director Douglas Holtz-Eakin similarly argued that "immigration reform can raise population growth, labor-force growth, and thus growth in gross domestic product. In addition, immigrants have displayed entrepreneurial rates above that of the native-born population."

Holtz-Eakin estimates that reform lifts gross domestic product growth by a percentage point and reduces the federal budget deficit by more than \$2.5 trillion.

So if the budget establishment is willing to score immigration reform in dynamic terms, why won't the Heritage Foundation?

I have great respect for this free-market think tank, so I'm not going to parse through all the arguments against its \$6.3 trillion lifetime net-deficit price tag for immigration reform. But it has the story wrong. Former Bush economist Keith Hennessey's view that the Heritage analysis is more a critique of tax-and-spend redistribution than of illegal immigration is correct.

And let us not forget the economic benefits of opening the door to more brainiacs -- foreigners who will boost American technology by filling engineering vacancies. Then there are the immigrant students who get advanced degrees at our best universities. They'll make enormous contributions to economic growth and innovation if we let them.

And if we're talking 50-year periods, the next Google or Apple or Amazon can employ so many and pay such good wages -- creating massive wealth through capital and consumer goods -- that the economic dynamism of new immigrants could cover all the costs of immigration reform and then some.

Like most everyone, I'd like the borders to be tightened as much as possible. And the whole immigration process must be streamlined and reformed. But bringing millions out of the shadows and into the taxpaying workforce, allowing for an orderly flow of immigrants each year, and raising the limit on foreign brainiacs and students would be a massive economic-growth-producing reform. That's the history of immigrants coming to the United States.

At a time when the U.S. labor force has stopped growing, and anemic economic growth has become the new normal, now is the moment to promote pro-growth immigration reform.

"Opportunity is magic. ... Often with nothing but their dreams and hopes for the future, immigrations have enriched our land, creating abundance beyond measure for America." That was Rep. Jack Kemp speaking to the League of United Latin American Citizens on June 25, 1987. His words were right then, and they're right today.

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Extracted from: [http://www.realclearpolitics.com/articles/2013/05/11/immigration\\_reform\\_is\\_pro-growth\\_118370.html](http://www.realclearpolitics.com/articles/2013/05/11/immigration_reform_is_pro-growth_118370.html)

## The Role of Immigration in Innovation

**Gordon H. Hanson**

Past improvements in living standards for American households have been largely the consequence of growth in the productivity of capital and labor (Jones 1995). Productivity growth, in turn, is the result of innovations that create new products and production processes. The Windows operating system, the iPhone, Lipitor and other cholesterol-reducing drugs, safe, fuel-efficient automobiles, and improved agricultural varieties are a few among the many new products that have appeared in recent decades and that have raised the level of national welfare. Each was the consequence of intensive research and development that culminated in a blockbuster product based on myriad new patents. A binding constraint in generating innovations is the supply of highly talented scientists, engineers, and other technical personnel. Immigration helps relax this constraint.

Each year, U.S. universities conduct a global talent search for the brightest minds to admit to their graduate programs. Increasingly, foreign students occupy the top spots in the search. Data from the National Science Foundation's Survey of Earned Doctorates show that between 1960 and the late 2000s, the share of PhDs awarded to foreign students rose from one fifth to three fourths in mathematics, computer science, and engineering; from one fifth to three fifths in physical sciences; and from one fifth to one half in life sciences. U.S. university departments that have more foreign graduate students produce more academic publications and have their work cited more frequently (Stuenkel, Maskus, and Mobarak 2010). Once they graduate, U.S.-educated foreign workers patent at a significantly higher rate than U.S.-born workers (Hunt 2009). As a consequence, U.S. cities that attract these workers produce larger numbers of patents in electronics, machinery, pharmaceuticals, industrial chemicals, and other technology-intensive products (Kerr and Lincoln 2010). Simply put, high-skilled immigration promotes innovation. An additional benefit is that high-skilled immigrants are likely to pay far more in taxes than they use in public services, generating a positive net contribution to government fiscal accounts.

What does the United States do to attract talented foreigners? Foreign students who are admitted to U.S. universities can generally obtain a student visa. While the process of awarding visas was beset by onerous new restrictions after 9/11 (Alden 2009), many of these problems have since been resolved.

Today, the difficulty is not in attracting top foreign students to America but in keeping here them after they graduate.

High-skilled immigrants have three primary channels for obtaining permission to work in the United States. The H-1B visa, which targets highly trained professionals, permits holders to work in the United States for a period of three years. It is renewable once, with the annual number of visas capped at 65,000. Employer-sponsored green cards permit holders to live and work in the country indefinitely. The annual number of new visas is capped at 150,000. The third channel is a family-sponsored green card, which requires marrying a U.S. citizen (visas for which there is no cap) or having a close relative already in the country legally (visas for which are capped at 640,000). Because of the limited number of work-based visas, the family visa route remains the most common path to legal residence for skilled workers. Rosenzweig (2007) reports that in the early 2000s among immigrants who entered the United States on student visas and ultimately obtained green cards, 55 percent did so by marrying a U.S. citizen. To make it in America, foreign students not only need to be smart enough to get into a U.S. university. They also need to be proficient at dating.

Despite many hurdles to their entry, high-skilled immigrants make important contributions to U.S. productivity growth. By making it easier for talented foreign students to stay on in the country once their studies are finished, their contributions could be even larger.

## Aligning Incentives, Sharing Gains

Immigration moves workers from countries where they are less productive to countries where they are more productive. Simply by crossing the U.S.-Mexico border, Mexican workers see their hourly wage increase by a factor of 2.5, adjusting for cost of living differences between the United States and Mexico (Hanson 2009: 192). Students from Vietnam, Ghana, or Bolivia who obtain graduate degrees in the United States develop the potential to publish academic research or create patentable technology that they could not have accomplished at home. For the world as a whole, international migration appears to increase total income and generate large gains for those who take the risk of moving from one nation to another.

Convincing the American public that immigration benefits them, and not just migrants, is a task few politicians are willing to embrace. Yet, evidence suggests that for the United States immigration of high-skilled labor accelerates the rate of productivity growth and immigration of low-skilled labor improves the efficiency of the labor market. The downsides of immigration, brought about in part by the entry of undocumented workers, include adverse consequences for U.S. taxpayers. The problem is not immigration per se but rules governing taxes and spending that fail to make U.S. employers internalize the fiscal consequences of hiring low-skilled foreign labor. The nation could preserve the benefits from immigration and increase its public support by shifting the fiscal burden of immigration from taxpayers

to employers. If we as a nation are going to continue to support immigration, we need to find arrangements that align the incentives of employers, households, and workers.

Extracted from: <http://www.cato.org/sites/cato.org/files/serials/files/cato-journal/2012/1/cj32n1-3.pdf>

## Is Immigration Really the Problem?

**Stefano R. Mugnaini**

I am constantly awestruck by the prodigious destructive capacity of my children. My three-year-old daughter can break things that I can't even take apart; seemingly sturdy objects quail before her wrath. One of my greatest fears is that, as an adult, she will channel this knack for destruction into its most logical outcome: a career in public "service."

One of my favorite rhetorical games to play with proponents of bigger and better government is to challenge them to name an area where government action proves superior to private action. Most answers, if any are tendered, relate to military spending, criminal justice, or infrastructure construction and maintenance — sectors that are hardly models of temporal or pecuniary efficiency. Of course, to even have this discussion, it is necessary to ignore the mounds of shattered glass that pile up as government bricks break window after window to create projects for the public good. Is it any wonder that the urban centers that have been the beneficiaries of the most sincere intervention by our magnanimous central planners most closely resemble the aftermaths of natural disasters or the ravages of war?

When we draw Hayek's famous concept of the "fatal conceit" of central planners out to its logical conclusion, we must conclude that all legislative activity, whether explicitly economic or not, is burdened with the threat of producing dramatic, unintended, and undesirable consequences. In his magnificent work, *Our Enemy, the State*, Albert Jay Nock described a delicate balance between "State" and "social" power.

Thus the State "turns every contingency into a resource" for accumulating power in itself, always at the expense of social power; and with this it develops a habit of acquiescence in the people. New generations appear, each temperamentally adjusted ... to new increments of State power, and they tend to take the process of continuous accumulation as quite in order. (p. 10)

The consequences of this shifting of power often create new crises, which call for new legislative solutions and new opportunities for the growth of state power. Fair-minded individuals may differ on what is necessary to limit the inherent danger of government abuses; proposals run the gamut from strict constitutionalism to anarchy, but only the strongly deluded fail to recognize the risks that exist when one individual or group is given coercive power over the actions of another.

A prime example of this phenomenon is on display with every bit of news about our southern border. Among many other factors, the "War on Drugs" and the welfare state have added to a plethora of enticements that encourage — even incentivize — an influx of immigrants seeking a better life than can be had south of the border. Regardless of the reader's conclusions about immigration policy, it is clear that government policy has had the general effect of exacerbating the difficulties inherent in this situation.

It has been well explained how the "War on Drugs" artificially limits supply and increases risk, thereby increasing prices and profit margins. This, obviously, creates a financial incentive for individuals to become drug mules and risk the hazardous journey across the border with illicit substances. Surely this effect is an unintended one, but government intervention in this realm creates and augments the very market it is aimed at quelling. State action may paint a market black, but cannot drive it out of existence.

But what about the "War on Immigration"? All that is needed, we are told, is the development of a comprehensive immigration-reform policy. Then the Rio Grande will flow with milk and honey and the deserts will bloom with high-paying jobs. A recent trend has been for states and municipalities, frustrated with federal inaction, to attempt to take matters into their own hands.

In my area, the approach that has gained traction is to crack down on those who rent homes and provide jobs to undocumented individuals. A recent law passed by the Summerville town council mirrors legislation that has been put into place throughout the country. This law makes it illegal to rent out an apartment or house without first verifying the immigration status of potential tenants. This is further proof that governments have a tendency to complicate and intensify the problems that they set out to solve. To explain this point, it is first necessary to consider the most common complaints about illegal immigrants:

- They take low-paying jobs.
- They receive social services (such as reduced-cost housing, WIC, and other welfare benefits) that far outstrip their contributions to the local and national economy.
- They commit crimes and turn to illicit means to provide for themselves.

The veracity of these charges has been explored ad nauseam, and at least partially refuted, but that is not the goal of this essay. For our purposes, presume these claims to be legitimate, universally proven allegations. Assuming that illegal immigrants are absolutely guilty of all the above charges, attempt to answer this question: How will legislation that denies jobs and housing to individuals already in our communities lighten the burden they place on society?

Is this not the fatal conceit magnified? Will they not become more dependent on social services and more likely to resort to crime to attain their daily bread and shelter from the elements? What other choice is there? This approach is similar to laws that prohibit homelessness. If we can eradicate an undesirable thing simply by legislation, why not prohibit joblessness, too? Or poor eyesight? Or stupidity?

Presumably, the goal is to send the message that illegal immigrants need to move on down the road. But what happens when the next town, and then the next, enacts similar laws? Eventually, there is no escaping the consequences of such laws; the cure creates the disease, just as minimum wage laws create unemployment.

Perhaps a better approach is to simply free the market, including the labor market, and dismantle the welfare state. If we were all responsible for our own healthcare, education, and sustenance, then none but the most strident racist would possibly lose sleep over the legal status of their employee or neighbor. If we find the wisdom and boldness to exchange the wars on drugs, poverty, and immigration for a war on legislation, then maybe we will find greater freedom and prosperity for all.

Extracted from: <http://mises.org/daily/5324/Is-Immigration-Really-the-Problem>