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The Immigration Lab

Migration as a Driver of Economic Growth: Increasing Productivity and Filling the Labor Gaps

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There is a common sentiment that immigration into a country is a threat to the economy and to the working class. This report shows why such an assessment is incorrect. Immigration produces economic growth and can be a mechanism for improvements in the income of most native-born citizens. We make this argument by looking at migration as a source of the labor needed for production and as an element that fills the voids in a country's labor market. Rather than seeking costly anti-immigrant policies, countries like the U.S. should pursue policies to maximize the benefits of migration.

There is a sentiment that migration is a hindrance to the country's economy. Varying public opinion polls show that two of the biggest fears are that immigrants might reduce the number of jobs available for U.S. citizens and that they might increase demands for government services. For example, a 2021 poll showed that 51% of people in the United States worry that migration over time could reduce jobs available, 34% worried that immigration reduces wages, and 59% worried that immigration could lead to too many demands on government services.[1]
Nonetheless, this and many other polls show that most Americans are sympathetic to immigrants and more open to them than what one would guess from statements by politicians and the loud anti-immigration voices of a minority proportion of the population.

More specifically, there is an acute concern about the negative effects of migration on the working class. However, ample evidence suggests that the influx of immigrants can be a net positive for the country. Immigration increases productivity, fills gaps in the labor force, and is responsive to the needs of the country.

Most of the Monetary Value Migrants Create Stays in the United States

It is hard to put a dollar value on the contribution of immigrants to the U.S. economy. International banks have put much effort in the last two decades to measure remittances better, the money migrants send to family members in their places of origin. Some worry that remittances represent money taken from the U.S. economy, but the opposite is true. An easy way to conservatively assess recent immigrants' impact on the economy is to go up the chain from remittance flows.

It is safe to say that remittances from the U.S. represent only between 4% and 9% of the revenues that employers and firms in the United States generate thanks to the labor of the immigrants who remit. This is an underestimate of immigrants' impact on the economy because not all immigrants send remittances in cash through formal channels; those who are long-established in the U.S. and who have been able to benefit from family reunification, are less likely to remit, as are refugees and asylum seekers who may not have surviving family in their country of origin.

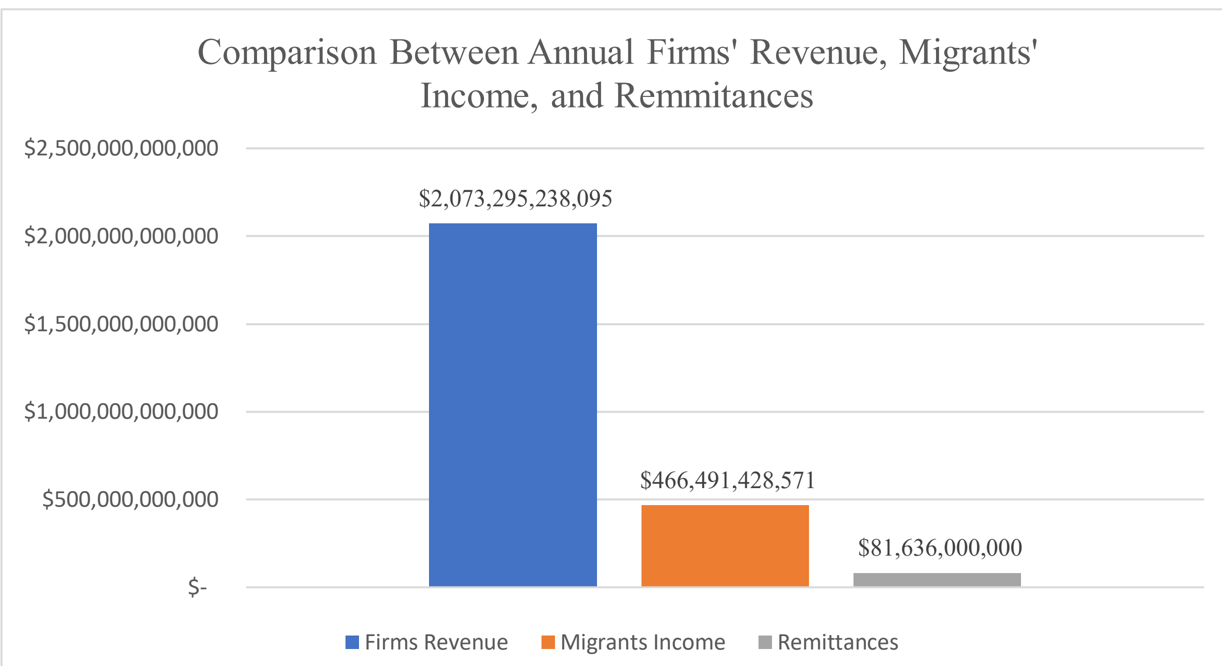

Figure 1: By the authors.

In one scenario, we calculate that employers in the United States receive revenues of over two trillion dollars ($ 2,073,295,238,095) from international migrants who send cash through formal channels such as banks or Western Union. This is the estimated amount when we assume that immigrants who remit receive around 22.5%[2] ($466,491,428,571) in the form of wages, not including benefits and payroll taxes. This varies by industry, but we use this average percentage used in many sources. This is assuming that immigrants send abroad around 17.5%[3] ($81,636,000,000)[4] of that income, which in relation to their employers' revenue is only 4%. This estimation shows that 96% of the monetary value created by immigrant labor stays in the United States. If we assume that migrants send around 30% of their income abroad then the percentage of money remitted is 7% of that produced. If we assume that the salaries are a higher proportion of the income generated by the businesses that hire them then we could get closer to 9%. What is clear is that immigrants generate wealth through their labor, and most of that money stays in the United States.

Figure 2: Economic Input Deducted from the Labor of Immigrants Who Sent Remittances in 2022

Item	Amount
Migrant generated revenue	$2,073,295,238,095
Migrants' income	$466,491,428,571
Remittances	$81,636,000,000

Calculated by the authors from World Bank remittances numbers.

These figures do not take into account the multiplier effects of the money immigrants spend on food, housing, services, taxes, and other expenses in the United States and the demand they create.

Many immigrants start businesses and hire others. Also, this does not take into account the many immigrants who arrive with savings and resources to invest in the U.S., including millionaire investors who get visas because of the cash they invest in the U.S.

Nonetheless, 2 trillion dollars represents around 8% of the U.S. 2022 GDP of 25.46 trillion US dollars.[5]

The Case for the Freer Movement of People

There is vast evidence that reducing constraints in the flow of goods and capital and the resulting increase in global trade made the world richer in the 20th century. Economists argue that, in the same way, reducing the constraints on the movement of people could be a force that significantly makes the world richer in the 21st century.

Land, labor, capital, and technology are factors of production that facilitate economic growth and the creation of wealth. The flow of labor globally can improve productivity and increase output. A paper by Michael Clemens estimates what percent of the world's GDP could be gained from the removal of international barriers for the flow of people by averaging the estimates of existing studies.[6] The removal of barriers to merchandise trade was calculated at around 1.7% of world GDP. The removal of barriers to capital flows came to 0.9% of global GDP. However, for the effects of the removal of barriers to labor mobility, he calculated an expected gain of 108.2% of world GDP.[7] Many others argue about the economic benefits of increasing international labor migration.[8] Tearing down the barriers to the free movement of people internationally would be one of the fastest ways to boost global economic growth.[9] Nevertheless, this is politically unlikely to happen in the short term, and in any case, most of the world population prefers not to migrate and stay close to their families of origin even in areas with open borders.[10]

In the next section, we discuss how migration encourages economic growth in the United States even amidst the current limitations in the free flow of people.

Migration as a Labor Input in the U.S.

The importance of immigration as a source of labor cannot be understated. Even with ever-expanding automation and globalization, not all tasks and labor can be omitted, automated, or offshored. Immigration in the U.S. has expanded the workforce. As of August 2023, foreign-born workers made up nearly 19% of the U.S. labor force.[11] In other words, without immigrants, the United States would have 19% fewer workers., and the U.S. economy would look much weaker.[12] Currently, population and labor force growth in the U.S. are driven by net international migration.

Restraining migration to the United States would reduce overall supply and demand. It would reduce aggregate supply because there would be less labor for production, and it would reduce aggregate demand because there would be fewer consumers. Restraining migration in the country would slow economic growth in the United States.

Historical Accounts of Migration and Economic Growth

The positive economic change that arose in England during the Industrial Revolution was largely a result of migration from rural to urban areas. Countries with prosperous economies today have rich histories of immigration. They have opened their territories to new people leading to increased prosperity. Populations in countries such as Japan and many in Europe are getting older and have no or little economic growth because of low immigration rates.[13] As such, a growing number of European governments now accept that there is a positive economic case for immigration. Notably, Germany has been receiving more foreigners, relative to the size of its population, than the United States.[14]

In the United States, immigration has "generated significant economic benefits for today's population, including significantly higher incomes, less poverty, less unemployment, more urbanization, and higher educational attainment."[15] Further, integration efforts and investment in humanitarian support for migrants may be costly in the short term, but in the long term, will produce immense and country-wide economic benefits. Empirically demonstrated by Venezuelan immigrants in Colombia, "by promptly integrating migrants, the economies of host countries stand to increase their GDP by as much as 4.5 percentage points by 2030."[16]

Migration Fills the Gaps

Birth rates are on the decline in the U.S., Western Europe, Japan, Mexico, and China, among other countries.[17] Higher-income countries have rapidly aging populations. By 2050, we will see high-income countries with over 6 elderly persons per 1 child, with low and lower-middle-income countries averaging 1 elderly person per 1 child. Population numbers will continue to decline in higher-income countries due to these demographics, while lower-income countries will grow and/or remain steady with a stable and youthful population.[18] Naturally, population growth and economic growth are highly intertwined, and maintaining a youthful, working-age population is key to continuing to thrive economically.

Migrants and children born from newly arrived migrants might help ameliorate the declining population in rich countries. In the United States, there is population growth thanks to immigration and the children of immigrants—particularly Latin families given that 25% of children in the U.S. are Hispanic.[19] Immigrants keep a country's aging population younger than it would be without migration.

The COVID-19 pandemic resulted in an additional 7 million deaths worldwide, with 1 million deaths occurring in the United States.[20] This resulted in volatility in the labor market. In April of 2020, we saw 8.3 million workers, which is around 5%, drop out of the labor force.[21] After the return to normalcy, migrant workers have been key to economic recovery. In December of 2023, labor force participation is 167.45 million people.[22]

In the United States, many industries still cannot find workers, with some estimating that there are 8.8 million unfilled jobs as of November 2023.[23] We can see this in the restaurants, service, and construction industries, including in the DC-Maryland-Virginia (DMV) area, as exemplified by for-hire signs (Figure 3). It is worth noting the inclusion of Spanish on these signs. This is reflective of the large number of Latin American migrants that fill these positions.[24] In the DMV, the maintenance and construction industries are largely dependent on a Central American immigrant labor force.

Figure 3: Shows a building in Rosslyn in Arlington, Virginia, just across the river from D.C. with two banners: the one above says, "painter wanted" and "*necesitamos pintor*" below. The bottom banner says, "trim carpenter wanted" and "*necesitamos carpintero de interiores*" just below. Photo by Dr. Ernesto Castañeda (2023).

Immigrant-owned businesses are another sector in which immigrants contribute to the expansion of the U.S. economy and provide jobs to the U.S. labor force. An example of the benefit of immigrant-owned businesses is a concrete pouring company founded by a Salvadoran in Northern Virginia that has provided jobs for dozens of immigrants and native-born workers alike. The company is subcontracted by well-known businesses in the sector and has participated in projects, including MGM Casino at National Harbor, Amazon Fresh, and military bases.[25]

Immigration from Latin America has grown in recent decades and gone from a regional phenomenon concentrated in certain states to multiple new destinations like Atlanta, partly due to voids in low-skilled labor markets in these metro areas (Figure 4).[26] Figure 5 below shows the increase in the percentage of Latin people. One can see a dip in 2020 due to border closures. It is important to note that the growth in Latin population numbers is now mainly driven by Latin individuals born in the U.S. rather than by new arrivals from abroad.

ATLANTA POPULATION DATA			
YEAR	HISPANIC/LATINO	% OF TOTAL POP	
2018	22,979	4.60%	
2019	24,618	4.90%	
2020	29,988	4.90%	
2021	28,976	5.80%	
2022	28,241	5.70%	

Figure 4: U.S. Census Bureau data compilation based on the American Community Survey showing the Hispanic/Latino population and population percentage in Atlanta, GA, for 2018 to 2022.[27]

NATION WIDE POPULATION DATA			
YEAR	HISPANIC/LATINO	% OF TOTAL POP	
2018	59,763,631	18.30%	
2019	60,481,746	18.40%	
2020	59,361,020	18.20%	
2021	62,529,064	18.80%	
2022	63,553,639	19.10%	

Figure 5: U.S. Census Bureau data compilation based on the American Community Survey showing the Hispanic/Latino population and population percentage for 2018 to 2022. The great majority are US-born, naturalized citizens, or authorized immigrants.[28]

Most native-born "low-skilled" workers are reluctant to switch locations to fill jobs elsewhere, while foreign-born workers are more open to relocating again.[29] Furthermore, there is no conclusive data that immigrants compete for jobs with the native-born, even those without a high school diploma, or that they drive overall wages down.[30] The percentage of the U.S. population that faces such competition is small and would benefit in the long run from the larger, overall gains for the U.S. economy.[31] Research shows that the arrival of a large number of 'low-skilled' migrant workers allows working-class native-born workers to get better jobs.[32]

An increase of more laborers and consumers boosts future GDP gains for the host economy, benefitting the working class through cheaper products and the business sector through increased profits.[33] The important thing here is to create mechanisms to compensate those who might be more prone to negative effects in the short run.

The Cost of Anti-immigrant Policies

Anti-immigration policies do not only close off the pipeline of benefits to the host economy but also create unnecessary costs. Here we discuss two specific examples of this. The first one is the suspension of DACA, the Deferred Action to Childhood Arrivals program.[34] The second is the construction of a border wall and its cost.

DACA allows individuals who arrived in the United States as undocumented children to petition for delayed deportation action and the opportunity to apply for work and residence permits. DACA holders, colleagues, friends, and family members, have proven to be powerful economic contributors. "[They] have added more than $108 billion in wages to the economy over the last decade and paid $33 billion in federal, state, local, and payroll taxes. Some 56,000 DACA recipients are also homeowners making $567 million in mortgage payments each year."[35] Despite the immense legal challenges DACA continues to face within the United States legal-political system, its success in terms of economic and social growth cannot be refuted.

The effects of building a border wall on migration and economic growth in the U.S. have also proven to be negative. In 2006, George W. Bush passed the Secure Fence Act, which spurred the construction of more fencing at the Southern border of the United States with Mexico.[36] The theorizing of the Bush administration and the supporters of the wall was that it would benefit low-skilled American workers and prevent immigrants from 'stealing' their jobs. However, the effects were quite the opposite.[37] The reality of the inclusion of immigrants and migrants in the U.S. labor (and consumer) market is that they bring down the cost of goods and services, increase corporate profits, and have only a very small effect on wages. Some estimates show that between 2007 and 2010, the border fencing resulted in a predicted decrease in immigration but an inconsequential 36-cent increase in workers' annual income and a $4.35 annual loss for high-skilled workers.[38] More consequentially, scholars Allen, Dobbin, and Morten estimate that the further wall build-up stopped about 144,256 foreign-born workers from earning money in the U.S.[39] For each migrant lost, the United States' GDP fell by $30,000, equaling a loss of over $2.5 billion.[40] In the end, the United States economy suffered immensely from having a weaker immigrant presence.

Conclusion

The analyses presented support the premise that migration acts as a pivotal driver of economic growth. Despite prevalent concerns and misconceptions about the negative impact of immigration on the economy, ample evidence demonstrates the contrary. Rather than posing a threat, migration significantly contributes to economic expansion by addressing labor shortages, fostering productivity, and stimulating consumer demand. This paper refutes common misconceptions about the adverse effects of immigration on the working class, revealing that immigrant labor not only complements but also enhances the economic prospects of native-born workers. Migrants play a crucial role in filling labor gaps, sustaining industries, and creating enterprises.

Restricting immigration would detrimentally impact economic growth, diminishing both supply and demand in the labor market. Policies aimed at curbing immigration, the suspension of DACA, or the further construction of border walls and fences, would not only stifle economic contributions from migrants but also incur unnecessary costs for the country.

We argue for the strategic management of immigration to complement labor needs. Governments at different levels can leverage migration to meet labor needs and facilitate migrant inclusion while addressing the social impacts that may raise concerns amongst citizens.[41] Destination countries gain significantly from the contributions of migrants whose skills and attributes strongly match their needs, irrespective of migrants' legal status or motivation.[42] Instead of perceiving immigration as a threat, embracing its potential and leveraging the diverse contributions of immigrants stands as a crucial step in maximizing economic prosperity in the United States in the 21st century.

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