

THURSDAY, NOVEMBER 20, 2014

## Immigration

The first major confrontation between President Obama and the new Republican congress will apparently be over immigration. Immigration is a touchy topic, but I suppose the time has come to take a stand.

The first question to ask about immigration is whether we favor completely open borders. Before thinking that this is an absurd straw man, recall this quotation from a Wall Street Journal editorial in 1984:

*...we propose a five-word constitutional amendment: There shall be open borders.*

Economists tend to support higher levels of immigration, and some support completely open borders. What would be the effect of completely open borders on the U.S.? According to a Gallup survey, 150 million adults around the world would like to move to the U.S. If other destination countries kept their borders closed, a large number of the total of 640 million adults who would like to move somewhere would come here. Open borders would trigger a rush of immigration, since many immigrants would worry that the border might later close and would want to get in while it was still possible.

Each adult who immigrated would probably bring an average of one to two family members, for a total that might exceed the current population of the U.S. Over time, the number of immigrants would probably grow, because families would attract extended family members, and immigrant enclaves would ease the transition of additional immigrants less eager to assimilate into native American society.

My guess is that the vast majority of my readers would oppose a rapid doubling of the population of the U.S. from immigration. Why? Probably because they like things as they are and are reluctant to gamble on the political, cultural, and economic changes that might result.

On the other hand, most of my readers probably believe that immigration has benefitted the U.S. in the past, and that some level of immigration is desirable. So what would be the best amount of immigration? And who would make the best immigrants? The answer depends on the economic, political, and social effects of immigration.

My view is that the U.S. government should act to maximize the well-being of U.S. citizens. If immigration benefits current citizens, we should have more of it, but if it doesn't we should have less. Of course, if we can benefit non-citizens at a trivial cost to citizens we should consider doing so. But the New York Times editorial welcoming Obama's speech made no mention at all of possible benefits of Obama's actions to current citizens, only benefits to immigrants themselves. The Times made its position clear on Sunday, saying the following while arguing against admitting Cuban doctors to the U.S:  
*American immigration policy should give priority to the world's neediest refugees and persecuted people.*

By legalizing current residents who entered the country illegally, Obama will encourage many more people to come. They will not be deterred by his talk of border security - they will rightly reason that those being legalized now entered illegally, and so if they enter illegally they will probably be legalized sometime in the future. Will that help current U.S. citizens?

#### ECONOMIC EFFECTS

Bringing in foreign doctors would lower medical costs and improve access to medical care. Bringing in accountants would lower business costs. Bringing in low-skill workers lowers wages of native unskilled workers, hurting them and benefiting their employers. Most immigrants into the U.S. are unskilled, probably because doctors, accountants and employers have better political representation.

To determine the overall effect of low-skill immigration we need rough estimates of the government services consumed by immigrants, and the economic benefit of their employment in the U.S.

How much does government spend on new immigrants? A commenter at [marginalrevolution](#) last year pointed out that total US healthcare spending per year divided by total hours worked in the US would tell us something about which workers earn enough to cover average healthcare costs. Assuming that lifetime expected healthcare costs are the same for everyone, if immigrant wages are less than average healthcare costs per hour, then it might be true that the native population is subsidizing immigrants. (the answer also depends on benefits to employers, which I will discuss)

Total healthcare spending in the US is estimated to be \$3.8 trillion in 2014. Subtracting out discretionary healthcare costs and all out-of-pocket expenditures, the amount is \$2.8 trillion. I subtract these amounts because poor immigrants might do without these services. The idea of immigration reform and

Obamacare is to provide medical insurance to everyone, so the remaining \$2.8 trillion is an appropriate amount to use.

According to the Conference Board, the total number of hours worked in 2013 was 248.61 billion. Division produces a result of \$11.26 per hour. The same calculation for education adds another \$1.80 per hour. Assuming that immigrant households receive 46% more welfare than native households, welfare spending adds another \$2.91, for a total of \$15.97. The overall effects of immigration on the federal budget are discussed [here](#). As George Borjas put it:

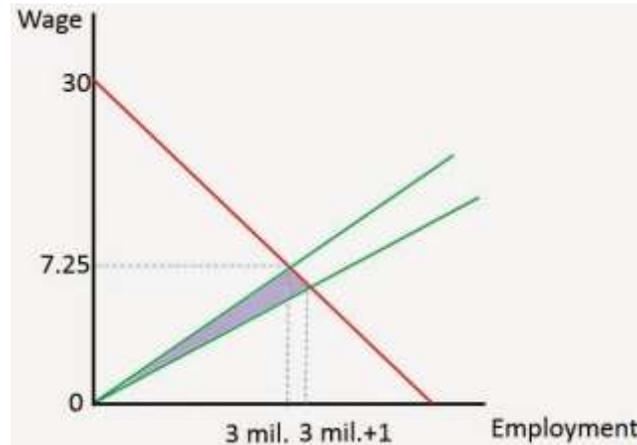
*There's also been a lot of fake fog thrown into the the question of whether immigrants pay their way in the welfare state. It's time for some sanity in this matter as well. The welfare state is specifically designed to transfer resources from higher-income to lower-income persons. Immigrants fall disproportionately into the bottom part of the income distribution. It is downright ridiculous to claim that low-skill immigrants somehow end up being net contributors into the public treasury.*

On the other hand, immigrants lower wages, benefiting employers and in turn, consumers of products made by these employers. I did a very simple calculation of the "immigration surplus" by specifying demand and supply curves for labor. This is a very, very simple model and I don't claim much for it, but I think it might give some idea of how to think about the costs and benefits of immigration, and why it is probably the case that it costs more than it comes to.

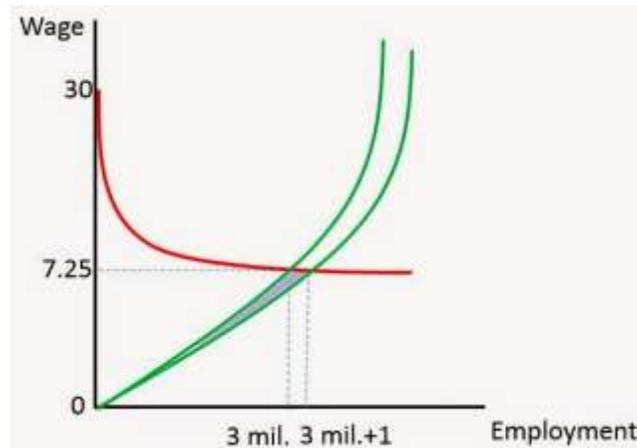
I assumed that no one in the U.S. would work for less than \$0 per hour, and that no one would hire anyone for low-skill jobs for more than \$30 per hour. Denmark pays fast food workers \$20 per hour, but how high could low-skill wages go before workers are replaced by automation? Assuming that a single robotic arm costs \$100,000 and fast food work consists of at least 6 tasks, I assume a cost per employee replaced of \$600,000. Assuming a 12 year machine life and a long-term corporate borrowing rate of 3.5%, and assuming that maintenance costs are similar to costs of maintaining human employees (training, uniforms, HR departments, etc), I think that low-skill workers would be replaced if their wages rose to \$30 per hour. Since approximately 3.3 million people are employed at or below the minimum wage of \$7.25 per hour, I have the other point I need to determine the demand and supply curves.

I model immigration as a pivot of the labor supply curve. If a single low-skill immigrant comes to the U.S., the wage floor is still zero, but at equilibrium one more worker is employed. This additional worker drives the wage down slightly below the minimum wage, which might happen with illegally low payments, unpaid overtime, worse working conditions, etc.

The overall addition to worker and employer welfare from adding an additional worker is shown by the lavender area. Since everything is linear, it is simple to calculate the areas of the triangles formed by the supply and demand curves.



I did the same calculation for non-linear supply and demand curves. I just assumed that the wage was proportional to the log of employment plus a constant and fit the points required by the assumptions. Finally, I took the integrals of the curves to calculate the areas under them. The curves look something like this (not to scale):



I calculate the total economic surplus added by an additional immigrant to be \$15 per hour using the linear model, and \$1.87 using the log model. Either way, the surplus is less than the \$15.97 estimated cost per hour. If the true economic surplus is somewhere in between, the net cost of low skill,

illegal immigration in the U.S. might be between 0.14% and 2% of GDP. These are not numbers that will bankrupt the country, but they are not trivial either. Either way, it is difficult to believe that low-skill immigration provides net economic benefits.

It is important to note that the benefits go to employers, while native workers lose. Conservatives often justify income inequality by arguing that it is needed for overall economic growth, but with low-skill immigration we get more income inequality and lower overall economic well-being.

#### POLITICAL EFFECTS

From a political point of view, immigration is always bad for Republicans. As I argued a year ago, immigrants are most likely to vote for Democrats. So Republicans understandably begin the debate biased against immigration, while Democrats are biased in favor. If immigrants happened to vote Republican, these biases would be reversed. Given current realities, anyone favoring lower taxes and smaller government has a good reason for opposing any additional immigration.

Republicans were happy that they almost received 40% of the Hispanic vote in 2014, but they will do worse than that in 2016, a presidential election year.

There is also a case to be made that most countries from which the US attracts immigrants are far less democratic than the US. Immigrants bring their own political ideas with them, and might water down support for some traditional American ideas and freedoms, as Pim Fortuyn argued in the Netherlands before he was murdered for saying so.

Setting partisanship aside, importing new voters as a political tool just doesn't seem fair. As the playwright Bertolt Brecht put it (although he was not talking about immigration):

*Would it not be easier  
In that case for the government  
To dissolve the people  
And elect another?*

## SOCIAL EFFECTS

The social and cultural effects of immigration are complicated. A diverse population brings an interesting variety of food, music, ideas and lifestyles. On the other hand, traditional American food, music, ideas and lifestyles are comfortable and desirable for many Americans. Too much diversity might crowd out traditional American culture, whatever that is, just as 19th century immigration crowded out traditional English colonial culture in America. Just as many people bemoan the growth of chain businesses at the expense of mom-and-pop restaurants, stores and other businesses, too many immigrants around the world might homogenize world culture, dissolving native cultures.

Of course, this has happened many times in American history. Waves of immigrants swept away traditional lifestyles and institutions in many cities and rural areas. Immigration strengthened and invigorated the country in many ways, but old ways of thinking and doing things, some good, some bad, were lost due to massive immigration. There were important positive effects of immigration, but there were also negative effects, such as city government corruption, labor violence, organized crime, and disease in overcrowded cities.

Immigration was severely curtailed from 1921 until 1965, with negative and positive social and cultural effects. Cultural diversity declined, and perhaps the perceived blandness of American culture contributed to the youth rebellion of the 1960s. On the other hand, national cohesiveness and trust in institutions were at high levels. A recent academic paper summarized the results of Robert Putnam as follows:

*for the United States, that at least in an unspecified short run ethnic diversity is likely to reduce social solidarity, social capital and particularly social trust between citizens.*

Robert Putnam is not anti-immigration, but his work demonstrates that there are some social costs of large-scale immigration. The current academic consensus appears to be that there is evidence suggesting that diversity in North America does have some cost in terms of social capital, but the situation may be different in Europe.

Disruptive effects of immigration are not always by accident. In the UK, for example, the Labour Party allowed mass immigration in order to "radically change the country and 'rub the Right's nose in diversity.'"

## CONCLUSION

Massive immigration of low skill workers costs more in added government expenditures than the economic benefits it provides, and at the same time it exacerbates income inequality within the U.S. It also has potentially disruptive social and political effects. The effects of high skill, high income immigrants would be different, and possibly more beneficial to Americans.

By legalizing immigrants who entered the U.S. illegally, President Obama will encourage massive new illegal immigration of people hoping for future amnesties. The vast majority of these immigrants will be low-skill, low-wage workers and their families, and they will cost U.S. taxpayers much more than their low wages will benefit U.S. employers. They will also have disruptive political and social effects. Even the Democratic Party might lose if more native voters turn against them than new immigrants vote for them.

But employers of low-wage labor are powerful, and unions believe that they will organize newly legalized immigrants. Bleeding hearts favor immigration regardless of the costs, as do libertarians who oppose border restrictions on principle, regardless of the additional taxation it might cause. This is apparently a very strong coalition, perhaps stronger than the majority of the population that will pay the price.

POSTED BY DAVID BARKER AT 8:29 PM