

**Immigration Economics and Immigration Policy**

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The “economistic” perspective has greatly influenced how many observers think about the benefits and costs of immigration. In this perspective, immigration is like international trade. After all, both involve flows across national boundaries. In the case of trade, manufactured widgets are transported from one country to another. In the case of immigration, human beings transport themselves across those boundaries.

Think of what it means to import that proverbial widget. It did not create itself out of thin air; it was manufactured by combining physical resources with some labor inputs. For example, making a single widget in China may require two high-skill workers to spend a month doing the design work, and ten low-skill workers to spend a year actually producing the piece. Importing a Chinese-made widget then resembles the immigration of two high-skill Chinese worker for a month, and the immigration of ten low-skill Chinese workers for a year. Immigration is indeed like trade, except that instead of importing the finished widget, we are importing the raw labor that can manufacture that widget domestically.

The accumulated knowledge from decades of research implies that international trade, *on net*, can have very beneficial economic impacts, creating an instinctive bias towards viewing this type of “worker migration” favorably. We already know that international trade increases the size of the economic pie. Therefore, the argument goes, immigration must also be beneficial. After all, importing workers seems equivalent to importing widgets.

In the 1950s and 1960s, West Germany and other European countries, heavily influenced by the economistic perspective, recruited and imported hundreds of thousands of guest workers, including many from Turkey. Those workers were viewed as the robotic labor inputs that underlie the argument that immigration, like trade, generates a net economic benefit for the receiving country.

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However, the presumed economic gains that result from looking at the world using the myopic lens of immigrants as a collection of robotic labor inputs can clash with reality when we view immigration from a much broader and longer run perspective. Over time, the impact of the “temporary” workers who would come in for a month or a year to produce those widgets domestically was not simply the sum of their contribution to widget production. By 2011, Turkish immigrants and their children comprised almost 4 percent of the German population, and the question of how this ethnic group fit into German society had become a central policy concern there. Reflecting on the European experience with the millions of guest workers, the Swiss writer Max Frisch made what I think is the single most insightful observation ever made about immigration when he quipped: “We wanted workers, but we got people instead.”

One important lesson from immigration economics is that viewing immigrants as purely a collection of robotic labor inputs leads to a very misleading appraisal of what immigration is about, and gives an incomplete picture of the impact of immigration. Because immigrants are not just workers, but people as well, calculating the actual impact of immigration requires that we take into account that immigrants act in particular ways because some actions are more beneficial than others. Those choices, in turn, have repercussions and unintended consequences that can amplify or weaken the beneficial impact of immigration given by the value of their contribution to widget production.

For instance, it is self-evident that not every person in a sending country wants to be an immigrant. In fact, most people often choose to stay in their birthplace, despite the sizable economic gains to be had by moving from one place to another. The movers almost certainly differ in significant ways from the stayers; they have different motivations, different skills, and so on. To calculate the impact of immigration correctly, it is not just a matter of counting the number of bodies that filled the slots in the proverbial widget factory. We also need to worry about *which* types of persons the receiving country ended up attracting.

Once the immigrants reach their destination, they have many more choices to make. A crucial choice that all immigrants must make is whether to assimilate to their new surroundings. As Europe has learned in the past few decades, assimilation does not happen automatically. There are many benefits from assimilation—for example, an immigrant may

find better-paying jobs. But there are also many costs—for example, an immigrant has to devote time to learning the new language, or may have to give up long-held cultural traits and beliefs. Immigrants will probably choose to assimilate only when it is in their interest to do so.

Immigrants will also have economic consequences through their contributions to or use of the welfare systems in the industrialized countries. The myopic immigrant-as-worker perspective ignores the fact that immigrants have lives outside the factory gate. But immigrants get sick, have accidents, lose homes, win lotteries, and are subjected to the same random twists of fate that we all face. And, just like us, many will need help and assistance when bad things happen.

The welfare state in the United States is designed to provide assistance not only to those who are most needy, but also to the working poor. And it is obvious that a broader perspective of immigration—one that views immigrants as something more than robotic workers—implies that the impact of immigration on welfare expenditures will depend on who the immigrants are. If the people who choose to migrate are high-skill, immigration will benefit the fiscal bottom line; the immigrants will add little to the cost of maintaining the welfare state and will share the burden of funding it, including helping pay for the substantial costs resulting from an aging native population. But if the immigrants are low-skill, immigration could increase the fiscal burden for natives.

In short, there are crucial differences between an evaluation of immigration that relies on the immigrants-as-workers metaphor and one that takes the broader perspective that immigrants are people. But there are important similarities as well. In either case, immigrants increase the size of the workforce, and this “labor supply shock” changes conditions in the labor market. Most obviously, an increase in the number of people who can do a particular type of work will likely reduce the wage that employers need to offer to people looking for that work. At the same time, however, other people will gain—after all, lower wages for the workers typically mean higher profits for the employers. In the end, immigration will almost certainly improve the economic well being of some Americans, but other Americans will be worse off.

Much of my evolution in how I think about immigration has resulted from attempts to incorporate Max Frisch’s insight into my academic work. But there is also a second factor

that influenced my thinking, and particularly affected how I read and interpret the voluminous literature on the economic impact of immigration. Paul Collier, a renowned British public intellectual and a professor at Oxford University, published a book in 2013 entitled *Exodus: How Migration is Changing Our World*. Collier, whose work mainly addresses questions in development economics, had never himself directly worked on immigration issues in his academic work. In *Exodus*, Collier argued that the presumed large benefits that immigration may impart on receiving countries can be greatly reduced as the number of immigrants increases substantially and the migration flow continues indefinitely.

Regardless of how one feels about this particular conclusion, I found it particularly insightful to read Collier's overall perception of the social science literature that he reviewed as he wrote *Exodus*:<sup>1</sup>

A rabid collection of xenophobes and racists who are hostile to immigrants lose no opportunity to argue that migration is bad for indigenous populations. Understandably, this has triggered a reaction: desperate not to give succor to these groups, *social scientists have strained every muscle to show that migration is good for everyone.*"

This is as damning a statement about the value of social science research on immigration—and probably about the value of social science research on any politicized and contentious policy issue—as one can find. As far as I know, Collier is the first distinguished academic to acknowledge publicly that social scientists have constructed an intricate narrative where the measured impact of immigration must be shown to be “good for everyone.”

I have long had a gnawing suspicion that a lot of the social science research—particularly outside economics, but certainly not exclusively so—was ideologically motivated. Much of the academic research was being censored or filtered to present the

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<sup>1</sup> Paul Collier, *Exodus: How Migration is Changing Our World*. New York: Oxford University Press, 2013, pp. 25-26. Emphasis added.

evidence in a way that would exaggerate the benefits from immigration and minimize the costs. The spin was often very subtle, but it could be detected, as Collier did, if one bothered to look.

By emphasizing the economic perspective, for example, much of the existing research ignores the implications of the many decisions potential immigrants must make, including whether or not to migrate, whether or not to assimilate, and so on. And many of those decisions could easily shift the emphasis away from the notion that immigration is “good for everyone.” Similarly, much of what we think we know about the economic impact of immigration is driven by assumptions that are made to simplify the conceptual model or the empirical analysis. Needless to say, assumptions do not come out of thin air *and they matter*. Finally, the typical study of the economic impact of immigration that uses an underlying economic model to frame the question often produces many insights. Some of those insights, however, detract from the narrative that Collier detected, and those are often hidden away in the attic of inconvenient truths.

This essay reviews some of the lessons learned by the available evidence on the economic impact of immigration. Instead of leading to the claim that immigration is “good for everyone,” the broader and more realistic approach teaches us that although immigration may be good for some, it is not necessarily good for all. Like trade, immigration produces winners and losers. Unlike trade, because immigration involves the movement of human beings, the implications of Max Frisch’s insight may easily reduce, and perhaps even reverse, the net economic gains that such flows can generate for a receiving country. In fact, it may well be that immigration leads to little increase in the economic pie, but to a substantial change in how the pie is split. As a result, it may be more useful to think of immigration not in terms of economic efficiency, but as simply a redistributive social policy.

### **1. Economic assimilation**

Most discussions of economic assimilation presume that it is a desirable outcome—at least from the point of view of the United States. It might seem silly to even ponder whether we should think of assimilation as a positive development, but the question is not as far-fetched as it seems. For instance, one often-heard argument in favor of immigration

is that “immigrants do jobs that natives don't want to do.” If the gains from immigration accrue from this division of labor, it is far from clear that assimilation benefits natives. After all, if immigrants eventually become just like “us,” who will do the jobs that “we” do not want to do?

The problem with this approach is that it views assimilation from the economic perspective of costs and benefits. The concept of economic assimilation is obviously far narrower than the cultural and social integration that really lies at the core of the debate. The immigration debate in Europe, for example, revolves around the perceived presence of large unassimilated groups in their society. Assimilation is not simply, and perhaps even mainly, an economic phenomenon. However, economic assimilation is tied together—and probably goes together—with other forms of integration.

The main lesson from the existing evidence on economic assimilation is obvious: Immigrants, like everyone else, respond to incentives. If the immigrants find it profitable to assimilate, they will take actions that lead to assimilation. If the immigrants find it worthwhile to remain a group apart, that too might happen. As a result, it should not be surprising that assimilation fluctuates over time as economic, cultural, and political conditions change.

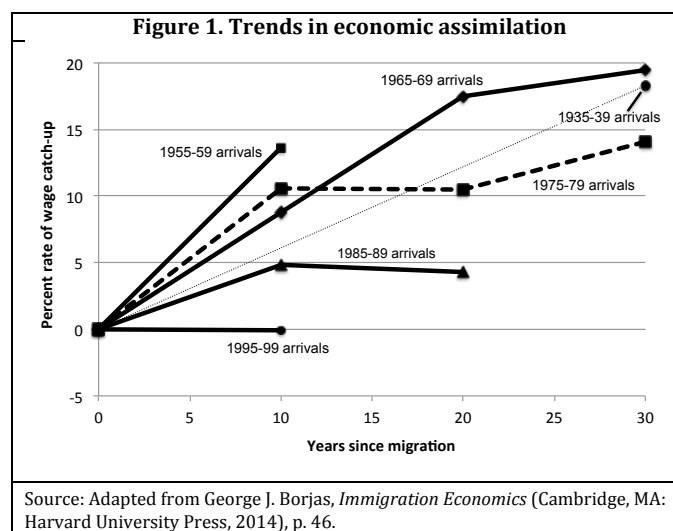


Figure 1 shows the wage growth experienced by a specific immigrant wave over time—relative to the growth of comparably aged natives. In effect, it illustrates how fast

the earnings of immigrants are catching up to the earnings of natives. It is certainly the case that the economic performance of the immigrants who arrived before 1980 improved dramatically. Their earnings grew by around 10 percentage points in the first decade, and by 15 to 20 percentage points after 30 years.

But the assimilation outlook is far less optimistic for more recent waves. The earnings of the immigrants who arrived in the late 1980s grew by only 5 percentage points in the first 10 years, and did not improve after that. Most disturbing, the earnings of the immigrants who arrived in the late 1990s did not grow at all in their first decade. In short, there seems to have been a dramatic *slowdown* in economic assimilation.

Part of the slowdown is related to the rise of large ethnic enclaves in the United States. The logic is obvious. Immigrants who arrive in the United States and find few compatriots with whom they can interact have a stronger incentive to acquire the skills necessary for a broader range of social and economic exchanges, such as becoming English proficient. In contrast, immigrants who enter the country and find a large and welcoming ethnic enclave have less incentive to engage in those types of costly investments because they already have a large audience that values their pre-existing skills. The available data, in fact, show that assimilation rates are smaller for immigrant groups that have a large ethnic community awaiting their arrival.

It may be tempting to dismiss the modern evidence on the assimilation slowdown by going back to the historical record and asserting that the immigrants who entered the country at the turn of the 20<sup>th</sup> century experienced remarkable assimilation, and why should the present be any different. Although it is widely believed that the economic performance of those immigrants improved dramatically during their lifetime, a recent reexamination shows that the widespread consensus is wrong. The public release of the actual census manuscripts compiled at the time allows modern historians to track specific *persons* from census to census. This person-level tracking lets us inspect the career path of each immigrant and compare it to the native path.

The tracking exercise turns the widespread perception of rapid improvement on its head. As economic historians Ran Abramitzky, Leah Platt Boustan, and Katharine Eriksson conclude: “The notion that European immigrants converged with natives after spending 10 to 15 years in the US is...exaggerated, as we find that initial immigrant-native occupational



gaps persisted over time.”<sup>2</sup> In short, the historical experience provides surprisingly little evidence of *any* economic improvement for the Ellis Island immigrants during their lifetime.

The available evidence, therefore, suggests an intriguing message. It seems that only the immigrants who entered the United States *in between* the two mass migrations that serve as bookends to the 20<sup>th</sup> century experienced substantial improvement during their lifetime. Notably, the interval between those two migrations happens to be the period when restrictive immigration policies, combined with the economic debacle of the Great Depression and the political upheaval of World War II, greatly limited the number of immigrants. A fascinating question remains open for future debate: Could it be that the limited immigration during that hiatus was partly responsible for the economic flourishing experienced by the immigrants who came in those years?

## 2. The Labor Market Impact

Immigrants do jobs that natives do not want to do, and have little impact on native job opportunities as a result. Anyone who follows the immigration debate surely noticed this refrain getting louder in the past decade, as the political class considered various proposals that would grant amnesty to undocumented workers and substantially increase the number of visas in many categories.

Although everyone knows that the price of gas goes down when the supply of oil goes up, many seem to believe that the laws of supply and demand do not apply in the immigration context. But there are some inconvenient facts that tend to be overlooked in the rush to the consensus that immigration is good for everyone.

As part of an enforcement initiative by the Bush administration in September 2006, immigration agents raided a chicken-processing plant in the rural community of Stillmore, Georgia. The *Wall Street Journal* sent a team of reporters to investigate.<sup>3</sup> The team gathered evidence that clearly illustrates how labor markets respond to labor supply shocks:

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<sup>2</sup> Ran Abramitzky, Leah Platt Boustan, and Katherine Eriksson, “A Nation of Immigrants: Assimilation and Economic Outcomes in the Age of Mass Migration,” *Journal of Political Economy* 122 (June 2014), pp. 469-470.

<sup>3</sup> Evan Pérez and Corey Dade, “Reversal of Fortune: An Immigration Raid Aids Blacks—For a Time.” *Wall Street Journal*, January 17, 2007.

After a wave of raids by federal immigration agents on Labor Day weekend, a local chicken-processing company called Crider Inc. lost 75% of its mostly Hispanic 900-member work force. The crackdown threatened to cripple the economic anchor of this fading rural town. But for local African-Americans, the dramatic appearance of federal agents presented an unexpected opportunity. Crider suddenly raised pay at the plant. An advertisement in the weekly *Forest-Blade* newspaper blared “Increased Wages” at Crider, starting at \$7 to \$9 an hour—more than a dollar above what the company had paid many immigrant workers.

Crider’s reaction to the 75 percent cut in its labor supply demonstrate the common sense underlying the laws of supply and demand far better than the mathematical models of economists ever could. Faced with the possibility of being unable to operate the plant and suffering substantial losses, Crider did what any profit-maximizing firm would do: Attract workers by offering a higher wage.

**Figure 1. A firm’s response to a cut in labor supply**

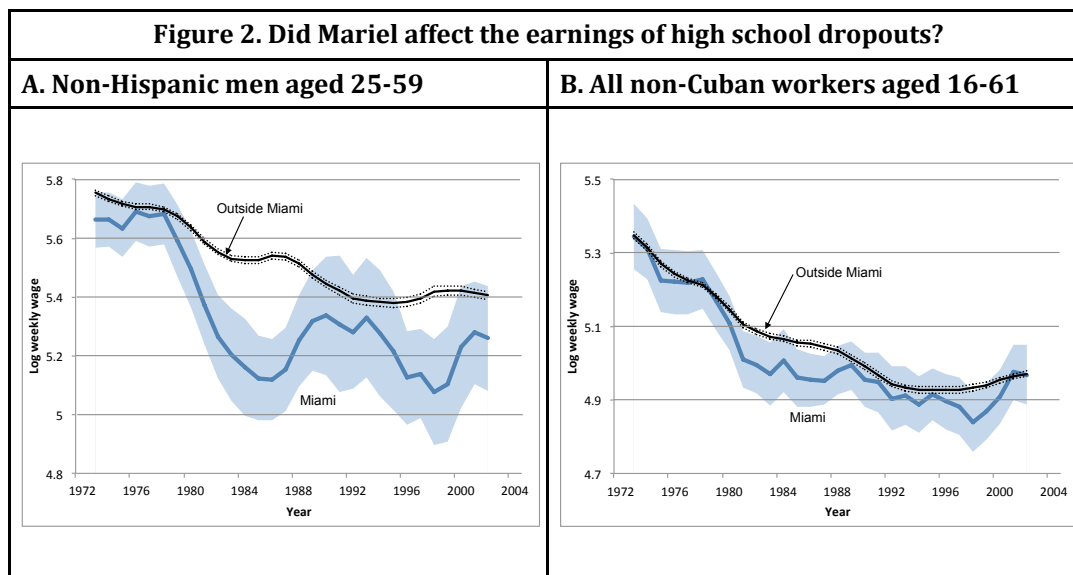
**CRIDER**  
**INCREASED WAGES**  
 HIRING IMMEDIATELY  
 GENERAL PRODUCTION WORKERS  
 DAY & EVENING SHIFTS  
 (Limited Van Service Available  
 to and from Crider)  
 Please apply in person  
 Monday - Thursday  
 8:00 A.M. - 10:00 A.M.  
 At  
 1 Plant Ave., Hwy 57 Stillmore, GA  
 EOE

Source: Evan Pérez and Corey Dade, “Reversal of Fortune: An Immigration Raid Aids Blacks—For a Time,” *Wall Street Journal*, January 17, 2007.

In doing so, Crider learned the obvious lesson implied by economic theory. It is not that “immigrants do jobs that natives don't want to do.” It is instead that “immigrants do jobs that natives don’t want to do *at the going wage.*”

Hundreds of published studies attempt to measure the labor market impact of immigration, with some claiming that immigration has little impact on native wages, while others claiming that the effect is sizable. It is easy to demonstrate how one can generate both sets of results from the same underlying data in the context of the Mariel supply shock. On April 20, 1980, Fidel Castro declared that Cubans wishing to move to the United States could leave from the port of Mariel. The first Marielitos arrived on April 23. By June 3, over 100,000 Cubans had migrated, and Miami's workforce had grown by around 8 percent. We can determine the impact of this supply shock by looking at labor market conditions in Miami just before and after the event. David Card's (1990) original study concluded that such a comparison implied that the *Marielitos* had no impact on the average wage of workers in Miami.<sup>4</sup>

Almost two-thirds of the refugees were high school dropouts, so that the number of high school dropouts in the Miami area increased by an astounding 20 percent in a matter of weeks. This obviously suggests that a good place to start would be to look at the earnings of high school dropouts. Remarkably, that trivial comparison was not reported in David Card's original study of the Mariel supply shock.



<sup>4</sup> David Card, "The Impact of the Mariel Boatlift on the Miami Labor Market," *Industrial and Labor Relations Review* 43 (January 1990): 245-257.

While working on my latest book, *We Wanted Workers*, I became interested in the Mariel context, decided to look at the data myself, and specifically focus on the low-skill workers most likely to be affected. Panel A of Figure 2 shows what happened to the earnings of prime-age non-Hispanic men before and after 1980 (with the shaded area giving the margin of error). It is obvious that the earnings of low-skill workers in Miami took a dramatic nosedive after 1980, and it took a decade for their earnings to fully recover.

As I suggested earlier, there is a great deal of analytical “creativity” in immigration research, and my discovery of the trend in Panel A quickly led to re-examinations that spun the data in a different way. The Mariel context, in fact, presents an ideal opportunity to show how it is crucial to examine the “nuts and bolts” of what researchers actually do before reaching a conclusion about a question of fundamental importance in the economics of immigration.

Panel B of Figure 2 uses the same underlying data from the Current Population Surveys (CPS) to recalculate the wage trends, but looks at what happened to a different group of workers. This particular data manipulation indicates that Mariel did not have any impact on the earnings of low-skill workers. Many participants in the immigration debate will prefer what Panel B says. But before jumping to conclusions based on what a graph looks like, it is crucial to stop and think about what is going on.

One distinction between the two panels of Figure 2 is that the right-hand-side panel looks at the trend in the average wage of men and women, which seems fine except for the fact that many women entered the labor market in the 1980s. As a result, the sample composition is changing in ways that need to be accounted for, particularly because the rise in female labor force participation in Miami was far slower than the rise outside Miami.

Similarly, Panel B includes non-Cuban Hispanics in the calculation of wage trends. This also seems fine until one realizes that a big chunk of those additional Hispanics were immigrants who entered the country *after* 1980. Unfortunately, the CPS did not provide any information on country of birth at the time, so the researcher needs to approximate the population of “natives.” It turns out that 52 percent of the non-Cuban Hispanics added in Panel B are immigrants who arrived after 1980. Adding these post-Mariel immigrants to the calculation again changes the sample composition, and contaminates post-1980 wage

trends. Just imagine, for example, how the wage trend in a “placebo” city such as Los Angeles would look compared to Miami if one included the very large number of Mexican immigrants who settled in Southern California during the 1980s.

Finally, Panel B includes workers outside their “prime age,” particularly those who are 16 to 18 years old. This inclusion is also problematic. Almost all of these teenage workers are high school students, employed in part-time jobs, and classified as “high school dropouts” because they do not yet have a high school diploma. There are millions of such students (our teenage sons and daughters among them), and their presence in the calculation of the wage trends makes the calculation almost meaningless. In the end, it seems that what one concludes about the wage impact of Mariel depends entirely on where one looks.

In my view, there is little doubt that immigrants affect the labor market opportunities of natives. A 10 percent increase in the supply of labor in a particular skill group probably lowers the wage of that group by at least 3 percent in the short run. The temptation to play with assumptions and manipulate the data, however, is particularly strong when examining this very contentious issue, so that the reported effects often depend on the assumptions made and the statistical manipulations used. The conflicting evidence, however, suggests one moral that can be helpful when interpreting competing claims: The more that one aggregates groups in the workforce, the more that one “hides away” the specific group of workers hurt by immigration, and the less likely one is to find that immigrants have an adverse effect on natives.

### **3. The immigration surplus**

Receiving countries typically welcome immigrants for a simple reason: they perceive that immigration generates an overall benefit for natives. If this perception were different, if it were believed that immigrants made natives worse off, I suspect that the open doors would quickly close.

To accurately measure the economic gains from immigration, one needs to list all the possible channels through which immigration transforms the economy: how immigration changes wages, prices, and profits; how immigration changes the number of jobs in each sector; how native workers and native-owned firms respond; and on and on.

This exhaustive calculation has *never* been done. Instead, the typical estimate of the gains relies on a model of a hypothetical economy that helps visualize what happens when the labor market is flooded by millions of new workers, letting us record the ripple effects of immigration on all sectors. Put bluntly, *all* estimates of the economic benefits from immigration come from an economist writing down a few equations that purportedly describe how the economy works and then plugging in some numbers.

One important lesson from this theory-based exercise is that the textbook model of the labor market—the model that describes the common-sense laws of supply and demand—indeed predicts that immigrant participation in the productive life of our country increases the aggregate wealth of the native population. This increase in the economic pie accruing to natives is known as the “immigration surplus.” In short, there are economic incentives for keeping the door open.

<b>Table 1. The short-run immigration surplus, 2015</b>	
	<b>Billions of dollars</b>
Immigration surplus	50.2
Loss to native workers	515.7
Gain to native firms	565.9
Total increase in GDP	2,104.0
Payments to immigrants	2,053.8
Source: George J. Borjas, <i>We Wanted Workers: Unraveling the Immigration Narrative</i> , New York: Norton, 2016, p. 158.	

However, as Table 1 shows, that model also predicts that the net gains for natives are modest—not in the trillions of dollars, not even in the hundreds of billions, but only around \$50 billion annually. And the theory-based exercise reveals that if one is willing to parade this modest gain in policy discussions, then one must also be willing to parade other, less welcome, implications of the same calculation: Immigration is responsible for a huge

redistribution of wealth, totaling around half-a-trillion dollars, from native workers who compete with immigrants to those natives who use or employ immigrant labor. It is telling that many discussions of the immigration surplus often choose to overlook the substantial distributional cost associated with generating even a \$50 billion surplus.

Note that the immigration surplus, which measures the aggregate gains accruing to natives, is conceptually different from the total increase in GDP observed in the receiving country. As Table 1 shows, immigration has increased GDP in the United States by over \$2 trillion. Almost all of this increase, however, goes to the immigrants themselves—immigrants, like us, do not work for free. Almost by definition, it is likely that immigrants have gained substantially from immigration (otherwise they would return to the source countries).

I would add a huge caveat to the \$50 billion estimate of the immigration surplus. The calculation ignores all the externalities that immigrants create along the way. The externalities are both good--the entry of extremely high-skill immigrants surely accelerates innovation, makes us more productive, and has a beneficial impact on economic growth. And bad--the entry of some high-skill immigrants, such as those who enrolled in flight schools and learned to fly planes and then flew them on September 11, 2001, can make us all much worse off. There does not exist a single credible study that even attempts to quantify the value of the many positive and negative externalities. So, in the end, all we really have to go on is an estimated surplus of \$50 billion in the short run.

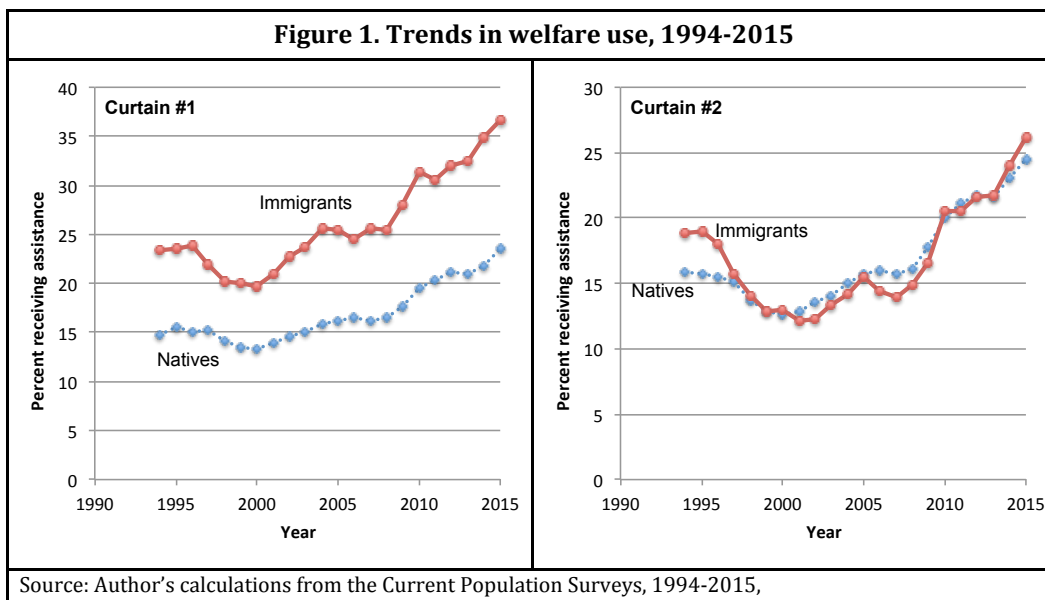
#### **4. The fiscal impact**

But before concluding that immigration, like trade, is a net plus to the receiving country's economic pie, we need to contrast the \$50 billion surplus with a number that measures the fiscal impact of immigration. After all, immigrants are not widgets. They will contribute to the funding of the welfare state through the taxes they pay, and they increase the cost of the welfare state because they will receive some services. The fiscal impact would determine whether the taxes that immigrants pay are sufficiently large to cover the expenditures they trigger.

The question of whether immigrants use welfare more or less often than natives population is, needless to say, controversial. And there are many conflicting answers to this

question. Given this disparity, it is enlightening to illustrate—in a very simple way—how one can use the same publicly available data to reach very different conclusions. The Current Population Survey (CPS) is the premier monthly survey of the American population and is collected by the Census Bureau. It is the survey used to calculate the official unemployment rate that makes news upon its release every first Friday of the month.

To keep things simple, being “on welfare” will mean receiving benefits from any one of three programs: Medicaid, food stamps, or cash benefits. There are obviously many other programs that could be thought of as being some type of welfare, ranging from public housing to free school lunches. The fraction of both natives and immigrants “on welfare” would obviously be higher if one were to include these additional programs, but it is easy to illustrate the main point by concentrating on the three main programs that make up the safety net. We are interested in finding out if the fraction of immigrants on welfare is higher, lower, or the same as the fraction of natives on welfare.



The two “curtains” of Figure 1 show the 20-year trends in welfare use calculated from the CPS, but I will temporarily play a trick on the reader by not revealing the difference between the two curtains. Let me emphasize that I am using the same CPS data to calculate the trends in both curtains. Nevertheless, it is obvious that if one looks at



Curtain #1, immigrants are on welfare far more often than natives, and increasingly so. But if one looks at Curtain #2, the welfare use of the two groups is essentially the same.

Let me reemphasize: Both curtains use *exactly the same data*. So what is the difference between the two curtains? It all depends on the fine print. In Curtain #1, I am reporting welfare use by *households*—which is the way in which welfare use is most often analyzed. Most welfare programs, after all, are allocated at the household level. For example, it is the presence of minor children that might entitle a single mother to receive an income grant for the family. In Curtain #1, the CPS data are manipulated to determine if anyone in the *household* receives Medicaid, food stamps, or cash.

An immigrant household is one where the head of the household is foreign-born, and a native household is one where the head is native-born. It is evident that households headed by an immigrant have particularly high rates of welfare use, and that the gap between immigrant and native households increased over time. By 2015, 37 percent of immigrant households were on welfare as compared to 24 percent of native households.

But the trends in Curtain #2 seem to contradict this fact. In this alternative scenario, I manipulated the data so that the frame of reference is a single *person*, rather than a household. In other words, the relevant question becomes: Did a particular individual receive welfare? If one were to calculate the fraction of people who receive assistance, there is little difference between immigrants and natives. About 25 percent of both groups received welfare in 2015.

So what exactly is going on? I introduced a subtle “trick” in creating Curtain #2. Suppose a young, single immigrant woman arrives in the United States. After a few years in the country, she becomes a single mother and has two children. In Curtain #1, this three-person grouping would be classified as an immigrant household. If the mother’s income were sufficiently low, the children (and perhaps even the mother herself) would qualify for some type of assistance. The household would enter the tally *once*, as an immigrant household on welfare.

In Curtain #2, this three-person household now enters the tally three different times. If this household were on Medicaid, the tally would record *one immigrant person* on welfare and *two native persons* on welfare. And therein lies the trick: Because the children were born in the United States, they enter the cost-benefit calculation on the native side of

the ledger. As the two curtains illustrate, this trick makes a huge difference in what conclusion we draw from the same data. To emphasize yet again, the fine print matters!

In September 2016, the National Academy of Sciences published a 500-page report that provides many alternative estimates of the fiscal impact of immigration, both in the short run and in the long run.<sup>5</sup> The short run impact is calculated by comparing the cost of providing public services to immigrants with the taxes that those immigrants pay in a particular year. The report unambiguously concluded that, on a year-to-year basis, *immigrants and their dependent children* create a fiscal burden. (Note that the National Academy implicitly adopted the immigrant-household-as-a-unit method).

In fact, the National Academy used nine alternative scenarios to calculate the short-run fiscal burden (see Tables 8-2 and 9-6 in the report). These scenarios report a burden ranging from \$43 billion to \$299 billion annually. In short, the social expenditures triggered by immigrants exceed the taxes they pay by at least \$43 billion a year and perhaps by as much as \$299 billion. The data are so unambiguous that it is easy to summarize what the National Academy calculations teach us. On a year-to-year basis, there is no doubt that the taxes that immigrant pay do not cover the public expenditures they trigger. And the shortfall seems to exceed \$50 billion annually.

The National Academy also calculated the long-run fiscal impact, taking into account the taxes and expenditures of immigrants and their descendants over a 75-year period. This long-run calculation allows for the possibility that immigrants might help fiscally, as the native population is aging and there is not enough money to fund the liabilities in Social Security and Medicare unless we drastically raise taxes or cut benefits. Immigration brings in new taxpayers who can help fund some of those liabilities in the future.

As the National Academy report notes, however, the bottom line of the long-run calculation depends *entirely* on the assumptions made. It is easy to generate either a very positive long-run fiscal impact or a very negative one by making different assumptions. There are two distinct assumptions that drive the conclusion. The first is how to allocate expenditures on public goods between immigrants and natives. Although it makes sense to

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<sup>5</sup> Francine D. Blau and Christopher Mackie, eds. *The Economic and Fiscal Consequences of Immigration*, Washington, DC: National Academy Press, 2016.

assume that the cost of public goods, such as police protection or national defense, is unchanged if we admit one more immigrant, it makes far less sense to assume that the cost of public goods is unchanged if we admit over 40 million immigrants. Similarly, any long-run scenario must make assumptions about the future path of taxes and government expenditures, and the available menu of assumptions about the future is tempting to anyone wishing to reach a specific conclusion about the long-run fiscal impact.

**TABLE 9.3. LONG-RUN FISCAL IMPACT OF THE AVERAGE IMMIGRANT (2016 NAS REPORT)**

	Gain or loss	
	Assuming the future path of taxes and spending stipulated by the CBO	Assuming the current path of taxes and spending continues into the future
Immigrants do not increase the cost of public goods	+\$58,000	-\$36,000
Immigrants increase the cost of public goods	-\$5,000	-\$119,000

Source: Francine D. Blau and Christopher Mackie, eds., *The Economic and Fiscal Consequences of Immigration* (Washington, DC): National Academy Press, 2016), Table 8-11.

As the National Academy showed, the long-run fiscal impact of the average immigrant is positive only if immigrants do not affect the cost of public goods and we assume that future tax rates and benefit payments will follow the projections made by the obviously infallible Congressional Budget Office (see Table 8-12 in the report). If one gets rid of either of those assumptions, the positive long-term impact of an immigrant (and descendants) contributing a net of +\$58,000 over the next 75 years becomes a loss as large as -\$119,000.

Assumptions matter, and different assumptions lead to wildly different answers. It is easy to generate a very large fiscal burden by charging immigrants for the cost of the public goods they receive. And it is equally easy to generate a large fiscal gain by playing around with the assumptions about future taxes and expenditures.

## 5. Implications for Policy

Social scientists in general, and economists in particular, have done a very good job of convincing many people that the mathematical models we build and the empirical findings we generate can be the foundation for a “scientific” determination of social policy. Put differently, if all the expert modeling and statistical analysis says that the world looks like  $x$ , then it must be the case that policy  $y$  is the right thing to do.

I happen to believe that the claim that mathematical modeling and data analysis can somehow lead to a scientific determination of social policy is sheer nonsense. Social policy would not be scientifically determined *even if* there were universal agreement on the underlying facts. Ideology and values matter as well. And the debate over politically contentious issues, such as immigration, would be far more honest and productive if we openly acknowledged that obvious reality rather than peddle particular policy goals as if they were implied by some scientific study.

The argument that models and data can somehow lead to a purely technocratic determination of public policy ignores a simple fact of life. Governments often pursue a particular policy goal because they—and the people who elected them—believe that what they are doing is *the right thing to do*.

We all have different values and perceptions about what is right, much of it coming from our personal history and from the ideological compass that we use to navigate through life. Some of us feel that we should have more immigration because of the diversity that immigrants introduce into our culture; and some people will go much further and argue that it is immoral to deny any person the right to cross a national boundary in search of a better life. On the other side, some will want to change the types of immigrants we admit, arguing that this type is better in some sense than that other type; and still others believe that we need to have a substantial cut in immigration because they want to preserve particular things about the country as it is now.

Let’s suppose, for example, that a democratically elected government ran on a platform that promised to protect native taxpayers from the perceived fiscal burden created by low-skill immigration. This government now controls all the policy levers (including the courts) needed to fulfill the promise they made.

The government consults the experts, and all the experts agree about the fiscal impact. In particular, let's assume that it is true that low-skill immigration is a fiscal burden, and that high-skill immigration eases that burden.

The elected government looks at the settled science and the policy path becomes obvious: It is fiscally irresponsible, and would greatly annoy the government's supporters, to admit millions of low-skill immigrants who will become a fiscal burden, but it may be worthwhile to admit high-skill immigrants who have high earnings and pay a lot of taxes. The government might then propose a "comprehensive immigration reform" that rids the United States of the family preference system, and replaces it with a skill filter that prevents all low-skill immigrants from entering the country.

Let's now suppose instead that the politicians who got elected had a different mandate. They ran on a platform that promised to alleviate world poverty by increasing foreign aid *and* by allowing many of the world's poor to move to the United States to partake in the many opportunities that our country offers.

The experts still report the same universally agreed-upon facts: low-skill immigrants are a fiscal burden and high-skill immigrants help fund the welfare state. But the government got elected on a platform that promised to address the issue of world poverty—and to spend a lot of money to do so. It is easy to see that an immigration policy that would admit millions of the world's "poor and huddled masses" would be a very large anti-poverty program indeed, perfectly aligned with the ideological beliefs of this government and its supporters.

Does knowing the fact that the poor and huddled masses create a fiscal burden for the native population deter the democratically elected government from carrying out its mandate? The answer would likely depend on the "burden threshold" that the government and the people were willing to accept. If the fiscal burden per native household is only a few hundred dollars per year, the politically sensible policy might still be the admission of millions of low-skill workers despite the fact that they will become a fiscal burden. The government—and its supporters—might have second thoughts if the fiscal burden was in the tens of thousands of dollars. But it is obvious that ideology will trump the facts for some range of the fiscal burden. This burden is the price that the people who are ideologically committed to the reduction in world poverty are willing to pay for "doing good."

So what would I do? My answer obviously depends on what I believe the objective of immigration policy to be. I happen to think that it is a good thing for the U.S. to pursue a policy that generates economic gains by admitting some high-skill immigrants *and* also “does good” by admitting some of the huddled masses. Within that framework, there are some policy shifts that would lead to preferable outcomes.

Let me start with the obvious. It makes no sense to talk about changes in policy unless our borders are secure. The very porous borders that have allowed over 11 million undocumented persons to enter the United States make legal immigration policy, in Woody Allen’s words, “a travesty of a mockery of a sham.” What is the point of coming up with ways to improve immigration policy if anyone can become an immigrant by crossing the southern border or by breaking the terms of a tourist visa? A necessary first step is simply to regain control of the border so that changes in immigration policy mean something once again.

A secure border will obviously require that we devote more resources to securing the border, and we already spend a lot of money doing that with less-than-stellar results. The undocumented flow would probably slow down dramatically if we took a different tack: let’s seriously penalize law-breaking employers. This would involve requiring employers to use an already available electronic system where they could easily check the visa status of job applicants (as with E-Verify). Fortunately, we are not the type of country that will trample on the civil rights of undocumented immigrants when they are detected and apprehended. But we are certainly the type of country that heavily fines and penalizes those firms that break the law. Sizable fines and criminal penalties would go a long way towards making undocumented immigration a more manageable problem, and would free us to discuss immigration policy in a more sensible and rational way.

We also need to view immigration policy from a broader perspective—not only worrying about how many immigrants to accept and the formula used to select the lucky few, but also about how to alleviate the adverse impact of immigration on many Americans. The best policy response to the lower wages caused by immigration is not necessarily to cut immigration altogether. As we have seen, there are economic gains to be had. However, the answer to lower wages should not be to just ignore them or to maintain the charade that immigration is “good for everyone.” The Trade Adjustment Assistance Program

enacted in 1974 provided aid to American workers affected by imports. Perhaps it is time to set up a comparable program to assist the workers employed in those industries and localities targeted by immigrants.

Many agricultural and service companies have benefitted handsomely from the employment of low-skill immigrants, and it is about time that those excess profits be used to compensate low-skill Americans for their losses and to help them transit to new jobs and occupations. If Microsoft really creates four new jobs for every H-1B visa granted, as Bill Gates claims, then Microsoft is profiting substantially from that program and should be willing to pay *many* thousands of dollars for each of those coveted permits. Those funds could be used to compensate and retrain the affected persons in the high-tech industry. We might be pleasantly surprised by how much money firms are willing to pony up to import guest workers. In Singapore, for example, firms that bring in low-skill service workers pay a *monthly* levy of 20 to 30 percent of the worker's salary for the temporary visa. Put simply, immigration policy should begin to incorporate specific taxes and subsidies to ensure that the gains from immigration are more evenly distributed. But to even partially compensate the losers from current policy, massive immigration will require massive new government programs to supervise a massive wealth redistribution totaling in the tens of billions of dollars. There is zero chance that the firms that profit from the way things are would go along with these transfers without an epic political struggle.

And those are the “easy” fixes. The link between immigration and the welfare state introduces particularly thorny issues. It *is* worrisome that, despite all the restrictions on immigrant welfare use, many immigrant-headed households receive some type of aid. The easiest fix is to do what Australia and Canada do—change the admission rules to select only high-skill applicants. Another might be to further tighten the welfare eligibility rules for immigrants. But this tightening creates additional problems because immigrant households often qualify for assistance due to the presence of U.S.-born children, and effective eligibility requirements may well require that we treat minor American citizens differentially depending on where their parents were born.

An equally difficult problem concerns the long-term assimilation prospects of immigrant families. Historically, immigrants made the decision to assimilate without much government encouragement. This hands-off approach worked well in the past, when the

assimilation decision was made in a cultural and social environment where the phrase “melting pot” was not considered to be a micro-aggression. The current ideological revulsion in many quarters towards the very notion of assimilation, and the continued reinforcement of distinct ethnic identities by many government programs, makes the hands-off approach problematic.

Thinking about immigration policy introduces difficult and inescapable tradeoffs, and choosing among those tradeoffs cannot be done solely on the basis of the mathematical modeling and statistical analysis provided by economists. In the end, the policy choice mostly depends on our values, on what we believe the United States is all about, and on what kind of country we want our children to live in.

In the end, there is a very simple (and obvious) way of summarizing how one should think about the framing of immigration policy: *Who are you rooting for?*