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Walls or Welcome Mats? Immigration and the Labor Market

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Summary
While the public debate on immigration reform has been divisive, the tools of economics provide clear lessons for a way forward. The single most important lesson that economics holds for immigration policymakers is that immigration restrictions are costly, because they interfere with the free movement of labor. Most economists believe that the gains to global GDP from greater labor mobility are very large. Beyond the estimated gains to the world economy, the consensus among economists is that, as a whole, U.S. natives gain from immigration in the labor market. While immigration may have an adverse effect on some native wages and employment—particularly for the least skilled workers—the empirical evidence indicates these effects, if existent, are small.

Keywords
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Walls or Welcome Mats? Immigration and the Labor Market

(Part one of a two-part series)

Howard F. Chang

In April of 2016, the Supreme Court heard oral arguments in the case of *United States vs. Texas,* as 26 states challenge President Obama's executive actions on immigration.

SUMMARY

- While the public debate on immigration reform has been divisive, the tools of economics provide clear lessons for a way forward.
- The single most important lesson that economics holds for immigration policymakers is that immigration restrictions are costly, because they interfere with the free movement of labor. Most economists believe that the gains to global GDP from greater labor mobility are very large.
- Beyond the estimated gains to the world economy, the consensus among economists is that, as a whole, U.S. natives gain from immigration in the labor market. While immigration may have an adverse effect on some native wages and employment—particularly for the least skilled workers—the empirical evidence indicates these effects, if existent, are small.
- To the extent that immigration has any adverse effects on the distribution of income among natives, the best response would be redistribution through progressive tax reforms rather than through restrictive immigration policies.
- Restrictive immigration policies not only diminish the general economic gains from having immigrants in the labor market, but they specifically impose burdens on households with working women by driving up the cost of services demanded disproportionately by these households, including child care, food preparation, and housekeeping.

President Obama has sought to protect roughly five million immigrants from deportation through his administration's Deferred Action for Parents of Americans (DAPA) and Deferred Action for Childhood Arrivals (DACA) programs. Texas and the other states claim that these orders impose significant education, health care, and law enforcement costs on the states.[1] An amicus brief filed by professional economists and other scholars, however, responds that DAPA and DACA, by granting many of these immigrants authorization to work, will expand economic output and increase tax revenues. The debate over the impact of immigrants in this case reflects the broader debate over immigration reform, which also turns on competing claims regarding the economic effects of immigration.

In particular, the most salient economic issues in debates over immigration restrictions and immigration reform revolve around the effects that immigrants have as workers in the labor market and the impact they have on the public treasury. I will address each controversy in its own Issue Brief.[2] In this brief (Part I), I will analyze the effects of immigration in the labor market. In Part II, which will be issued in late May 2016, I will turn to the impact of immigration on the public treasury in the United States.

The tools of economics prove useful in analyzing and evaluating immigration laws and generate some striking normative implications for immigration reform. Indeed, there is broad agreement among most immigration scholars about the path forward for immigration law in the United States. Although there is still debate among economists about exactly how much immigrants affect the wages and employment of the least skilled native workers, empirical evidence has led most scholars to conclude that any adverse effects are small, if these effects are negative at all. There also remains some disagreement over the degree to which immigrants and natives are substitutes in the labor market (the evidence suggests that they are imperfect substitutes), and this debate has important implications for assessing the impact immigration has on native workers. Most economists favor liberalized immigration policies, however, and the research that supports their conclusions warrants the attention of policymakers.

THE ECONOMIC BENEFITS OF LABOR MIGRATION

The single most important lesson that economics holds for immigration policymakers is that immigration restrictions are costly because they interfere with the free movement of labor. Workers tend to move to a country of immigration if they can earn higher wages there. All else being equal, the movement of labor from an economy in which workers produce less value to an economy in which they produce more value leads to a more efficient allocation of labor across countries and yields net gains for the world as a whole.

How much does the world stand to gain from increased liberalization? Most economists believe that the gains from greater labor mobility are very large. Economists who have estimated the gains from the elimination of migration barriers conclude that "even the smallest (most cautious) estimations exceed the combined current levels of development assistance and foreign direct investment to the developing world."[3] In fact, even partial liberalization of restrictions would produce significant gains. Because the first units of labor to move enjoy the greatest increase in wages, these yield the greatest increase in worldwide production. In fact, one economist who has surveyed the estimates of many other economists infers that "the emigration of less than 5 percent of the population of poor regions would bring global gains exceeding the gains from total elimination of all policy barriers to merchandise trade and all barriers to capital flows."[4] Table 1 surveys some estimates from the economic literature of the gains to global output from the elimination of migration restrictions.

The magnitude of these estimates of the potential impact of immigration liberalization on global income is shocking. Furthermore, it is quite possible that the smaller estimates offered by these economists are based on extreme and unduly conservative assumptions: estimates vary widely in part because they reflect different assumptions regarding the degree to which immigrant workers may be less productive than native workers in the country of immigration.

Some critics of these studies object that migration entails moving costs and that these estimates do not take these costs into account.[5] Although moving costs may well offset some of the gains from migration, these costs would not wipe out these

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1 The Hill, http://thehill.com/regulation/court-battles/271796-supreme-court-sets-april-date-for-immigration-case.

2 The primary source for each brief is Howard F. Chang (ed.), Law and Economics of Immigration, Edward Elgar Publishing Limited, 2015. I am grateful for the assistance of Matthew Stengel in the preparation of these briefs.

3 Jonathon W. Moses and Bjørn Letnes (2004), "The Economic Costs of International Labor Restrictions: Revisiting the Empirical Discussion", World Development, 32 (10), October, 1609-26.

4 Michael A. Clemens (2011), "Economics and Emigration: Trillion-Dollar Bills on the Sidewalk", Journal of Economic Perspectives, 25 (3), Summer, 83-106.

5 George J. Borjas (2014), Immigration Economics, Cambridge, MA: Harvard University Press.

6 Bob Hamilton and John Whalley (1984), "Efficiency and Distributional Implications of Global Restrictions on Labour Mobility", Journal of Development Economics, 14 (1), January-February, 61-75.

7 George J. Borjas (2014), Immigration Economics, Cambridge, MA: Harvard University Press.

8 Gianmarco I.P. Ottaviano and Giovanni Peri (2006), "The Economic Value of Cultural Diversity: Evidence from U.S. Cities", Journal of Economic Geography, 6 (1), January, 9-44.

9 Borjas (2014); George J. Borjas (1995), "The Economic Benefits from Immigration", Journal of Economic Perspectives, 9 (2), Spring, 3-22.

10 Jean Baldwin Grossman (1982), "The Substitutability of Natives and Immigrants in Production", Review of Economics

gains entirely. If moving costs were to cancel out the gains at the margin for a potential migrant, then that worker would simply choose not to move and thereby avoid those costs. Thus, moving costs would provide no reason to erect immigration barriers.

Critics also may worry that letting too many immigrants into a country would make the economy of the host country less productive. Empirical evidence, however, indicates that immigrants improve productivity by increasing the diversity of perspectives and the cross-fertilization of ideas.[8] In any event, no one seriously suggests that the United States simply open up its borders overnight without any restrictions. A more realistic proposal would be to liberalize immigration restrictions gradually over time so that the impact of immigration, including any effects on productivity, can be studied and quantified. This incremental liberalization should continue until the expected costs of any further liberalization offset the expected gains.

THE EFFECTS OF IMMIGRANT WORKERS ON U.S. NATIVES

While the world economy as a whole may gain from labor migration, and the migrating worker may gain, does a country of immigration gain as well? Debates about immigration reform in the United States often focus on the economic welfare of native U.S. citizens. Accordingly, policymakers commonly ask whether immigration also produces gains for U.S. natives in particular.

The consensus among economists is that as a whole, natives in the United States gain from immigration in the labor market. Although wages may fall for some native workers who compete with immigrant workers in the labor market, this loss is merely a transfer among natives. Any wages lost by some natives are offset by the gains for those natives who employ immigrants and for those natives who consume goods and services at lower cost. The natives who gain also enjoy a net benefit from employing immigrants. George Borjas refers to this net gain in the economic welfare of natives as the "immigration surplus."

A receiving country can increase its immigration surplus significantly by admitting more immigrants because an increase in the number of immigrants brings more than a proportionate increase in the size of the surplus. For example, the 50 percent increase in the immigrant fraction of the U.S. workforce between 1995 and 2014—from roughly 10 to 15 percent—corresponds to a 140 percent increase in the immigration surplus, or a rise from 0.1 to 0.24 percent of GDP.[9] Figure 1 highlights the growth in the immigrant population in the U.S., between 1970 and 2014.

Furthermore, natives can enjoy this immigration surplus even if immigration does not drive down the wages of natives at all. The empirical evidence suggests that natives and

TABLE 1: ESTIMATED GAINS TO GLOBAL OUTPUT FROM THE ELIMINATION OF MIGRATION RESTRICTIONS

Economist(s)	Data Period	Result from Liberalization
Hamilton & Whalley (1984)[6]	1977	13% - 197% boost to global GNP
Moses & Letnes (2004)	1998	5.6% - 118.1% boost to global GDP
Clemens (2011)	Multiple Studies	50% - 150% boost to global GDP
Borjas (2014)[7]	2011	13.4% - 89.1% boost to global GDP

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and Statistics, 64 (4), November, 596-603.

11 Patricia Cortes (2008), "The Effect of Low-Skilled Immigration on U.S. Prices: Evidence from CPI Data", Journal of Political Economy, 116 (3), June, 381-422; Ethan Lewis (2013), "Immigrant-Native Substitutability and the Role of Language", in David Card and Steven Raphael (eds), Immigration, Poverty, and Socioeconomic Inequality, New York, NY: Russell Sage Foundation, 60-97.

12 Giovanni Peri and Chad Sparber (2009), "Task Specialization, Immigration, and Wages", American Economic Journal: Applied Economics, 1 (3), July 135-69.

13 George J. Borjas (1994), "The Economics of Immigration", Journal of Economic Literature, XXXII (4), December, 1667-1717; Rachel M. Friedberg and Jennifer Hunt (1995), "The Impact of Immigrants on Host Country Wages, Employment and Growth", Journal of Economic Perspectives, 9 (2), Spring, 23-44.

14 Joseph G. Altonji and David Card (1991), "The Effects of Immigration on the Labor Market Outcomes of Less-Skilled Natives", and Robert J. LaLonde and Robert H. Topel (1991), "Labor Market Adjustments to Increased Immigration", in John M. Abowd and Richard B. Freeman (eds), Immigration, Trade, and the Labor Market, Chicago, IL: University of Chicago Press, 201-34.

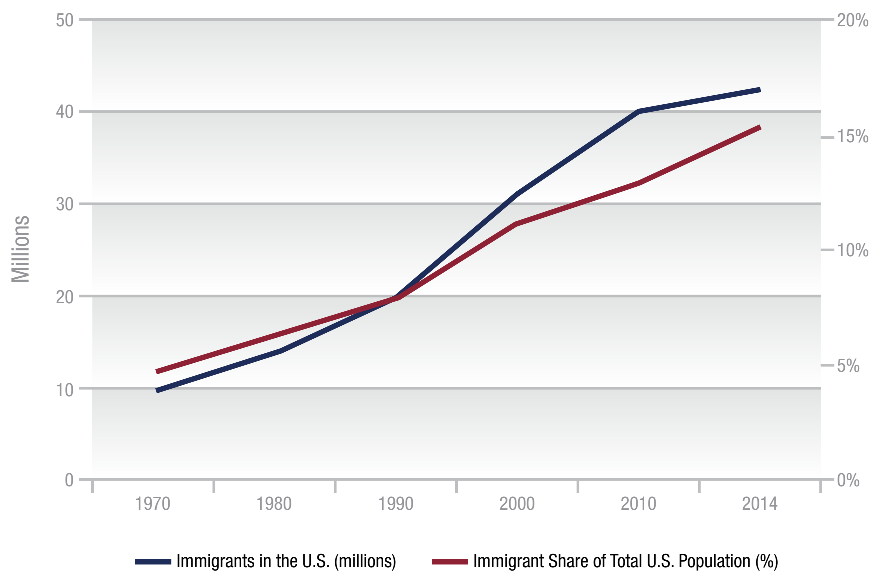
15 David Card (1990), "The Impact of the Mariel Boatlift on the Miami Labor Market", Industrial and Labor Relations Review, 43 (2), January, 245-57.

16 For a critique of the Card study, see George J. Borjas (2015), "The Wage Impact of the Marielitos: A Reappraisal", National Bureau of Economic Research Working Paper 21588,

immigrants are imperfect substitutes in the labor market.[10] Immigrant workers are imperfect substitutes for native workers in part because these workers differ in terms of their English language skills.[11] Empirical evidence indicates that natives and immigrants specialize in different occupations in the United States based on the comparative advantage that natives enjoy from communicating in English.[12] As long as immigrants and natives are imperfect substitutes in the labor market, the immigration of workers need not affect native wages adversely on balance. Native workers who would otherwise suffer adverse effects from competition with immigrants can respond to immigration by shifting their labor away from manual tasks and toward more communication-based tasks. This response protects them from the adverse effects of competition from immigrants.

Immigration may nevertheless have an adverse effect on some native workers, the least skilled native workers in particular, but the empirical evidence indicates these effects are small.[13] Studies that have examined the effect of immigrants on particular subsets of native workers, including less-skilled natives and black and Hispanic natives, have found modest or insignificant effects on native wages from immigration.[14] The empirical literature similarly finds that the effects of immigration on native employment, unemployment, and labor force participation are small or insignificant.

FIGURE 1: SIZE AND SHARE OF THE IMMIGRANT POPULATION IN THE U.S.



Source: Migration Policy Institute tabulation of data from the U.S. Census Bureau's 2010 and 2014 American Community Surveys and 1970-2010 decennial Census data.

The most famous and widely-cited study in this literature is surely David Card's evaluation of the impact of the sudden influx of about 125,000 relatively unskilled Cuban immigrants in Miami from May to September in 1980.[15] These Cuban immigrants, who fled the Fidel Castro regime via the port of Mariel, increased Miami's labor force by a striking 7 percent over the span of mere months. Yet Card finds "essentially no effect on the wages or employment outcomes of non-Cuban workers in the Miami labor market." He compares outcomes in Miami with trends in other cities from 1979 through 1985 and finds, even among less-skilled native blacks, no negative effects on native wages or employment.[16]

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September. For a study that responds to that critique and confirms Card's results, see Giovanni Peri and Vasil Yasenov (2015), "The Labor market Effects of a Refugee Wave: Applying the Synthetic Control Method to the Mariel Boatlift", National Bureau of Economic Research Working Paper 21801, December. For a rejoinder, see George J. Borjas (2016), "The Wage Impact of the Marielitos: Additional Evidence", National Bureau of Economic Research Working Paper 21850.

17 Alan O. Sykes (1995), "The Welfare Economics of Immigration Law: A Theoretical Survey with an Analysis of U.S. Policy", in Warren F. Schwartz (ed.), Justice in Immigration, Cambridge, UK: Cambridge University Press, 158-200.

18 Howard F. Chang (2009), "Immigration Restriction as Redistributive Taxation: Working Women and the Costs of Protectionism in the Labor Market", Journal of Law, Economics and Policy, 5 (1), Spring, 1-29.

19 Optimal tax theory suggests that redistributive taxes should target male workers rather than female workers so as to redistribute a given amount of income with the smallest distortion in labor supply.

20 Patricia Cortes and Jose Tessada (2011), "Low-Skilled Immigration and the Labor Supply of Highly Skilled Women", American Economic Journal: Applied Economics, 3 (3), July, 88-123.

REDISTRIBUTION AND IMMIGRATION'S EFFECT ON FEMALE LABOR SUPPLY

The adverse effect of immigration on the least skilled natives in the future could prove to be larger than it has in the past if the United States liberalizes admissions for the least skilled immigrants in particular. An adverse effect on the wages of the least skilled natives could worsen the distribution of income among natives. Nevertheless, concerns about the distribution of income among natives do not provide a sound economic reason to oppose liberalized immigration policies, even for the least skilled immigrants. Alan Sykes and other legal scholars criticize the use of quotas and labor certification requirements as inefficient, protectionist, and costly attempts to exclude competition in the labor market.[17] To the extent that immigration has any adverse effects on the distribution of income among natives, the best response would be redistribution through progressive tax reforms rather than through restrictive immigration policies. The United States could redistribute income at lower cost by doing so through the tax system because immigration restrictions needlessly sacrifice the gains that natives derive from immigrants in the labor market.

Another reason to favor redistribution through the tax system over redistribution through immigration restrictions concerns the impact that such restrictions have on families with more than one worker participating in the labor market. In prior research, I have drawn upon empirical evidence regarding the effects of immigration to suggest that restrictive immigration policies aggravate rather than mitigate the distortions in work incentives that are associated with the redistribution of income.[18] Specifically, I suggest that the burden of protectionist immigration laws in the United States falls disproportionately on households with working women by driving up the cost of services demanded disproportionately by these households, including child care, food preparation, and housekeeping. Thus, immigration restrictions do precisely the opposite of what optimal tax principles recommend because they burden working women, whose labor supply is more elastic than that of men.[19] Immigration restrictions introduce excessive distortions in labor supply by making it more costly for the secondary earner, who is usually female, to work in the labor market. Empirical work by other economists confirm that low-skilled immigration allows women in the United States to spend less time on household chores and more time working in the labor market.[20]

CONCLUSION

Economic theory raises a general presumption in favor of unrestricted labor mobility. Economists estimate that the migration of labor generates large gains in terms of both global economic welfare and the economic welfare of natives in countries of immigration. Even partial liberalization of immigration restrictions yields significant increases in economic welfare for immigrants and natives in receiving countries. Empirical evidence indicates that any adverse effects on native wages and employment are small. In any event, the appropriate response to concerns about adverse effects on the distribution of income among natives is redistribution through the tax system rather than through restrictive immigration policies. Protectionist immigration laws cause needless harm not only by sacrificing the economic benefits that flow from the movement of people across borders but also by aggravating distortions in the incentives for women to work in the labor market.

Part two of this immigration policy series, Immigration and the Public Treasury *(available in late May, 2016), will discuss the fiscal impacts of immigrants in the U.S.*

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Howard F. Chang writes on a wide variety of subjects in the economic analysis of law, including immigration policy, international trade, and environmental protection. Professor Chang is the editor of *Law and Economics of Immigration* (2015). His scholarship has appeared in the *Yale Law Journal*, the *University of Pennsylvania Law Review*, *Southern California Law Review*, the *Georgetown Law Journal*, the *Journal of Political Economy*, the *American Economic Review*, and the *RAND Journal of Economics*. Previously, he served on the Board of Directors of the American Law and Economics Association.

Professor Chang received his bachelor's degree in Government from Harvard College, a master's degree in Public Affairs from the Woodrow Wilson School at Princeton University, his law degree from Harvard Law School, and a PhD in Economics from the Massachusetts Institute of Technology.

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