

Prof. Bryan Caplan
bcaplan@gmu.edu
<http://www.bcaplan.com>
Econ 321

Weeks 5: Immigration and Immigration Restrictions

- I. Immigration and the Labor Market
 - A. What happens to the Aggregate Labor Market when people from another country come here to work?
 - B. Let's start with the admittedly unrealistic assumption that all workers are identical. Then immigration:
 1. Increases Aggregate Labor Supply.
 2. Has no effect on Aggregate Labor Demand. (There's no reason why immigration would affect MPP, and the central bank continues to target P, so $MVP = MPP * P$ stays the same).
 - C. Conclusion: Immigration reduces native wages.
 - D. Does this mean that immigration is bad for humanity? Absolutely not. Immigrants clearly gain from immigration; otherwise they wouldn't come.
 1. If immigrants have a low standard of living here, imagine how awful it was in their country of origin.
 - E. Does this mean that immigration is bad for Americans? Not for American *employers* of labor – including everyone who owns stock or a retirement stock, or who hires a nanny, housekeeper, or elder care professional.
 - F. Immigration also helps anyone who owns a home or land - more people means higher housing prices.
 1. Most estimates say that if immigrants raise population in an area by 1%, housing prices go up by roughly 1%.
 2. Note: What is the nationality of almost all the owners of U.S. real estate?
- II. Immigration and Comparative Advantage
 - A. In the real world, native workers and immigrant workers are *far* from identical.
 1. Most obvious difference: Current immigrants tend to be either low-skilled or high-skilled compared to Americans. Potential immigrants tend to be very low-skilled compared to Americans.
 2. Slightly less obvious difference: Holding overall skill constant, natives usually speak much better English.
 - B. These facts imply that immigration can actually raise American wages. Why? Comparative advantage: People with different skills produce more *total* output if they specialize and trade.
 - C. Simple example: Many highly educated American women stay home with their kids because it is so expensive to hire a nanny.

Many women in Mexico know how to take care of children, but have little education.

D. Suppose that in a day, American and Mexican women can produce:

	American Woman	Mexican Woman
Computer Programs Written	4	.1
Children Cared For	2	2

E. Both sides can increase production by immigration and specialization! Have ten Mexican women switch from writing computer programs to childcare (-1 program, +20 childcares), and one American woman switch from childcare to computer programs (+4 programs, -2 childcares). The world is richer by 3 programs and 18 childcares.

F. How can we show this in an Aggregate Labor Market diagram? Thanks to comparative advantage, trade effectively raises MPP. Suppose that post-immigration, computer programs and childcare have equal prices. Then immigration effectively changes the productivity table to:

	American Woman	Mexican Woman
Computer Programs Written	4	2 (by trading childcare for programs)
Children Cared For	4 (by trading programs for childcare)	2

G. Implication: immigration increases *both* ALS and ALD. Therefore:
 1. The effect on average native wages is now ambiguous.
 2. The effect on world living standards is clearly positive.

III. The Distributional Effects of Immigration on Native Wages

A. Since workers aren't identical, some natives can lose even if most gain, and some natives can gain even if most lose.

B. Natives tend to lose when they're *selling* the same skills that immigrants are selling. Natives tend to gain when they're *buying* the same skills that immigrants are selling.

1. People often claim that economics professors favor immigration because we don't have to worry about foreign economists coming here to "take our jobs." True or false?

C. In recent decades, the United States has had two main kinds of immigration:

1. Legal high-skilled immigration.
2. Illegal low-skilled immigration.

D. Economists have estimated the effects of this immigration on native wages. Let's look at two sets of estimates:

1. Borjas and Katz, for Mexican immigration from 1980-2000.
2. Ottaviano and Peri, for 1990-2006.

E. Borjas and Katz break workers into four educational/skill categories. Key assumption: Natives and immigrants with the

same education level are identical. Estimates of the *total* effect of immigration on native wages:

Worker Type	Short-Run	Long-Run
High school dropouts	-8.4%	-4.8%
High school graduates	-2.2%	+1.2%
Some college	-2.7%	+0.7%
College graduates	-3.9%	-0.5%
<i>All native workers</i>	-3.4%	0.0%

- F. Borjas is probably the most respected critic of immigration in the world. But his estimates are shockingly positive compared to what normal people think. Even dropouts only lose 4.8% total (not per year).
- G. Ottaviano and Peri assume that native and foreign labor are different, even if they have the same level of education. Natives have a comparative advantage in language skills, foreigners have a comparative advantage in non-language skills. Estimates of the *total* effect of immigration on native wages:

Worker Type	Short-Run	Long-Run
High school dropouts	-0.7%	+0.3%
High school graduates	-0.6%	+0.4%
Some college	0.0%	+0.9%
College graduates	-0.5%	+0.5%
<i>All native workers</i>	-0.4%	+0.6%

- H. Notice: On Ottaviano and Peri's more reasonable assumptions, native workers enjoy long-run gains from immigration. Even native drop-outs slightly gain.
1. The only workers who lose from immigration are earlier immigrants. They suffer quite a bit materially, but don't forget that immigrants are often eager to reunite their families.

IV. Immigration Restrictions and Their Effects

- A. Wages are very low in many populous Third World nations. Tens of millions of people would be overjoyed to come to the U.S. and take what Americans see as "bad jobs."
- B. Why don't they come? Because it is:
1. Virtually impossible for low-skilled workers to come here legally (unless they already have close family members in the U.S.).
 2. Very expensive for low-skilled workers to come here illegally. Smugglers ("coyotes") charge rural Mexicans two *years* income (about \$3000) to take them across the border. Fees for more distant countries are vastly higher.
- C. Immigration restrictions probably have more effect on labor markets than *all other government policies combined*. They clearly "work" in the sense that they drastically reduce immigration.
- D. What are the other effects of immigration restrictions?

- E. Effect #1: Drastically reducing world output. Immigration laws prevent workers from moving to the most productive locations in the world to do whatever they do best. Rough estimates say that world output would DOUBLE under open borders.
 - F. Effect #2: Drastically increasing world poverty. Merely moving from a Third World country massively increases workers' income. People from the poorest countries typically gain 1000% or more. One immigrant can keep a large extended family alive back home.
 - G. Effect #3: Reducing average American income. Low-skilled Americans who don't own a home or other assets may gain from immigration restrictions, but only a small minority of Americans are in this category.
 - H. Effect #4: Shielding American eyes from the sight of severe poverty. Conditions in many populous Third World countries are awful, so we should expect immigrants to keep coming here even if their living standards seem very low to us. Open borders would drastically reduce global poverty, but make remaining poverty much more visible.
- V. Arguments for Immigration Restrictions
- A. All First World countries severely restrict immigration. Economically, however, these policies are a disaster. Why would anyone favor them?
 - B. Argument #1: Immigration restrictions prevent American poverty.
 - C. Response: The net effect of immigration on Americans' standard of living is probably positive. (See above).
 - D. Argument #2: Immigration restrictions protect American taxpayers.
 - E. Response: Immigrants don't just collect benefits; they also pay taxes. Estimates of the net fiscal effect of immigration vary, but no major study finds a large negative effect on American taxpayers.
 - F. Implausible? Remember:
 1. A lot of government spending – like the military and interest on the national debt – is “non-rival.” Immigration means we can average these expenses over a larger number of taxpayers.
 2. Government spends far more on the old than the poor. Immigrants tend to be young, so even the low-skilled collect a lot less than you'd think.
 3. Adult immigrants' own governments have already paid for most of their education, so our taxpayers don't have to.
 - G. Argument #3: Immigration restrictions protect American culture.
 - H. Response: Markets provide strong incentives to learn English. The vast majority of second-generation immigrants are fluent. And America's cultural centers have unusually high foreign-born populations.
 - I. Argument #4: Immigration restrictions protect American liberty.

- J. Response: Immigrants are no more than modestly less pro-liberty than natives – and they have low voter turnout. Immigrants also probably reduce native support for the welfare state, because people don't like paying taxes to help out-groups.
- VI. Alternatives to Immigration Restrictions
- A. Even if the preceding complaints are valid, there are certainly cheaper, more humane solutions than immigration restrictions.
 - B. Immigration and American poverty: If immigrants are reducing the living standards of low-skilled Americans, there's no need to reduce immigration. We could simply charge immigrants an admission fee or extra taxes, then use the revenue to compensate low-skilled Americans.
 - C. Immigration and American taxpayers: If immigrants aren't paying their way, we could restrict immigrants' eligibility for various government benefits.
 - D. Immigration and American culture: If immigrants aren't learning our language and/or culture, we could make passing grades on language or "cultural literacy" tests a condition of entry.
 - E. Immigration and American liberty: If immigrants are bad voters, we could restrict their right to vote.
 - F. If any of these alternatives to immigration restrictions seem unfair, they're clearly *less* unfair than preventing people from coming at all.
- VII. Why the Standard Story of Immigration Is Wrong
- A. The standard story of immigration: In earlier times, when America was underpopulated, free immigration was a good idea. Once the economy matured, however, immigration restrictions became necessary. Without these restrictions, our economy and our society would collapse.
 - B. This story makes little sense.
 - C. Most of the United States remains virtually empty, so why aren't we still "underpopulated"? Wages are much higher now than they were in the 19th-century, so economically speaking we're more underpopulated than ever.
 - D. Immigration restrictions weren't imposed because the "economy matured." They were imposed because of racial and ethnic prejudice: first against the Chinese and Japanese, then against Southern and Eastern Europeans.
 - E. At the time, most Americans favored immigration restrictions because they were convinced that these unpopular racial and ethnic groups were "inferior" and would remain so. But most Americans were wrong.
 1. Chinese, Japanese, and Southern and Eastern Europeans have been at least as successful as the rest of the population.
 2. Even if most Americans were right, there was no reason to restrict immigration. Comparative advantage implies

mutually beneficial trade even when one side is worse at everything.

- F. Open borders would not lead to “economic collapse.” In fact, there are strong reasons to expect open borders to lead to the most rapid economic growth in human history.
- G. There’s no good reason to think that open borders would lead to “social collapse” either.
 - 1. Immigration would probably improve our fiscal outlook by attracting large numbers of young taxpayers to help support our growing retired population.
 - 2. Immigrants would have a strong incentive to learn English, and make our culture more innovative.
 - 3. Even if immigrants wanted to vote, few would vote to “kill the goose that lays the golden eggs.”
- H. Open borders would however lead to massive economic and social *changes*.
 - 1. World poverty and inequality would plummet, but we’d have to actually see a lot of the poverty and inequality that remain.
 - 2. There would be a massive expansion of housing and industries. New cities would spring up almost overnight – like in China today.
 - 3. At least initially, immigrants would live in very crowded housing and work in jobs we consider awful.
 - 4. Low-skilled labor would be so cheap that many American natives would hire household servants, drivers, nannies, etc.
- I. Something to think about: Getting rid of immigration restrictions is a lot like getting rid of Jim Crow laws.
 - 1. Like Jim Crow, immigration restrictions deprive vast numbers of people of their basic right to sell their labor to any willing buyer.
 - 2. Ending immigration restrictions, like ending Jim Crow, will lead to massive economic and social changes.
 - 3. The friends of Jim Crow predicted the collapse of civilization if these laws were repealed. Friends of immigration restrictions predict the same if we open our borders today.
 - 4. The doomsayers were wrong then, and they’re wrong now. The end of Jim Crow ultimately led to a richer and better world. There’s every reason to think that the end of immigration restrictions will have the same effect on a far larger scale.