

The Economics of Immigration: Who Wins, Who Loses and Why

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President Barack Obama delivers remarks on immigration reform at Del Sol High School in Las Vegas on Jan. 29, 2013.

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Washington's focus has shifted to immigration reform this week as a bipartisan group of Senators [put forward a comprehensive plan](#) on Monday and President Obama followed with a proposal of his own yesterday. The debate thus far has been anchored around the bipartisan Senate proposal, the President's support for a "path to citizenship," and House Republican's opposition to it. The opposition to the plan so far has centered around concerns about such a deal inviting a new influx of undocumented workers, or its rewarding those who have violated the law. These are important discussions to have, but with the economy here at home still so fragile, many are wondering what sort of effect immigration has on the American economy.

Here's a look at four big questions concerning the economics of immigration:

Does immigration reduce wages for native-born Americans?

It might seem like a no-brainer that increased immigration would reduce the wages of native-born Americans. A simple supply and demand model would tell you that more workers means lower wages. But the story is actually more complicated than that. According to a [2010 survey of the economic literature](#) on the subject, the Brookings Institute concluded that, "The most recent academic research suggests that, on average, immigrants raise the overall standard of living of American workers by boosting wages and lowering prices."

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How can it be that more workers competing over the same [jobs](#) can lead to higher wages? The reason is that it's not actually more workers competing over the *same* jobs. Immigration actually changes what jobs employers need to fill. For one, an influx of cheap labor can make certain businesses like farming or restaurants feasible. (Absent cheap labor, these firms simply could not compete with foreign rivals.) Second, immigrants not only supply labor, but demand it, too. And a larger domestic population through immigration creates more potential customers for business, as well.

Is immigration a drain on the welfare state?

Another popular argument for maintaining tough restrictions on immigration is that without strict laws

limiting immigration, unskilled workers would flock to America to take advantage of its relatively robust welfare state. The economic literature in this area yields conflicting conclusions and varies greatly depending on the country being studied. Some studies show that immigrants take out more in benefits than they pay in taxes, while other studies show the opposite. But George Mason University economist Bryan Caplan [argues](#) that the welfare state in America specifically dissuades folks from coming here purely for welfare benefits. First, writes Caplan:

“Contrary to popular stereotypes, welfare states focus on the old, not the poor. Social Security and Medicare dwarf means-tested programs. Since immigrants tend to be young, they often end up supporting elderly natives rather than ‘milking the system.’ Illegal immigrants who pay taxes on fake Social Security numbers are pure profit for the Treasury. In 2005, Social Security’s chief actuary estimated that without all the taxes paid on invalid Social Security numbers, ‘the system’s long-term funding hole over 75 years would be 10 percent deeper.’”

Second, Caplan points out that most government spending is what economists call “nonrival,” meaning that the government “can serve a larger population with little or no extra cost.” For instance, he argues, the United States military could adequately defend a population of twice the size of America for the same, or just slightly higher, cost. “An even clearer case,” Caplan writes, is “if the population of the U.S. doubled overnight, the national debt (not deficit) would remain the same, and the per capita debt would halve. The lesson: Immigrants can pull their own fiscal weight even if their tax bills are well below average.”

(**MORE:** [Why Undocumented Workers Are Good for the Economy](#))

Does immigration help the economy grow?

The most important factor driving economic growth is innovation. To put it simply, if American workers and firms can figure out how to do their jobs more efficiently, we’ll see economic growth. And [according to University of California economist Gordon Hanson](#), immigrants — specifically high-skilled immigrants — are great for innovation. Immigrants are more likely than native-born Americans to secure patents on new inventions or processes, and Hanson argues, immigrants can bring unique knowledge about foreign markets to American firms.

But it’s not just high-skilled immigrants who can help boost economic growth in America. [According to Hanson](#), low-skilled immigrant workers can make the American economy more efficient as well. First of all, low-skilled immigrant workers are more willing to move to find work than native-born American workers. Writes Hanson:

“Low-skilled U.S.-born workers tend to be immobile across regions. When, say, the demand for low-skilled labor picks up in North Carolina, native-born workers in other regions are slow to move in . . . The consequence of the immobility of low skilled labor is to gum up the labor market, slowing the pace of growth in booming regions and the pace of recovery in slumping regions.”

(**COVER STORY:** [We Are Americans—Just Not Legally](#))

In addition, an increase in low-skilled immigrant workers can also help to make the high-end of the labor force more efficient. Increasingly, high-skilled workers are women who are also married to high-skilled

husbands. And an increase in low-skilled labor willing to do everyday housework like laundry, cleaning, and childcare frees these workers to spend time more productively at their jobs.

Whom does immigration hurt then?

Economists, as a rule, like to look at the big picture. And the vast majority of the economic literature argues that a more liberal immigration policy would be good for the U.S. economy *as a whole*. The problem is, of course, that not everyone is going to come out a winner. A particularly contentious issue as far as economists are concerned is the effect of immigration on low-income, native-born workers. As I mentioned before, the literature is divided on whether an increase in low-skilled immigrant labor hurts low-skilled native workers in the long-run or not.

But it's almost certain that in *individual* cases there will be workers who get put out of work by immigrant competition. And these individual stories of hardship are a much more salient effect of immigration than a slew of patents that make hundreds of products ever-so-slightly more efficient. In other words, the benefits of increased immigration will be spread out among the entire population, while the costs will be borne by a relatively small group of individuals who will feel the effects acutely.

In addition, we must not forget that there is more at stake here than purely economic considerations. Those who are opposed to more liberal immigration policies, or a "path to citizenship" for undocumented workers in America are concerned about ideas of fairness, the sanctity of the law, and the integrity of American culture. And these are all issues that will be debated openly and forcefully in the coming months as [Congress](#) considers the issue. But as these debates continue, it's worth noting that mainstream economists mostly agree that more immigration is, on balance, good for the economy.

PHOTOS: [Family Photos of an Undocumented Immigrant](#)