

Inquiring Minds topic – 21 June 2013

Betty Bainbridge - Moderator

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

By Christopher Matthews - Jan. 30, 2013 – TIME Magazine

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."

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.”

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.”

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.

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(second topic paper)

Why Mark Zuckerberg Is Pushing for Immigration Reform

By Sam Gustin - April 12, 2013 – TIME Magazine

America has always been a nation of immigrants, but today, there is general agreement that the U.S. immigration system is broken. The southern border remains porous, there are 11 million undocumented immigrants living in the shadows, and tens of thousands of the most promising immigrants are forced to leave the country thanks to outdated visa rules. Now, some of the wealthiest and most successful tech executives and investors in the country — led by Facebook founder Mark Zuckerberg — are calling for immigration reform.

"We have a strange immigration policy for a nation of immigrants," Zuckerberg wrote Thursday in the *Washington Post*. "And it's a policy unfit for today's world." Zuckerberg has joined forces with top executives and founders from Google, Yahoo and LinkedIn to launch a new organization called FWD.us, with the goal of influencing the current debate. Several top venture capitalists are also participating. "To lead the world in this new economy, we need the most talented and hardest-working people," Zuckerberg wrote. "We need to train and attract the best."

Visa reform is particularly important for these tech titans because immigrants have played such an important role in Silicon Valley. "Immigrants are far more likely than natives to study science and engineering and more likely to produce innovations in the form of patents," University of California economist Gordon Hanson wrote in a 2011 study. "Expanding the supply of immigration visas for high-skilled workers increases patenting activity in science and engineering, particularly in U.S. high-tech firms."

But thanks to outdated visa rules, tens of thousands of skilled immigrants are forced to return home — after being educated in the U.S. — because the government does not issue enough H-1B visas. This has led to what author Vivek Wadhwa has called America's "immigrant exodus." This "reverse brain drain" of talent is having real consequences. The proportion of immigrant-founded companies

nationwide has slipped from 25.3% to 24.3% since 2005, and in Silicon Valley, the percentage of immigrant-founded start-ups declined from 52.4% to 43.9% during that time, according to a recent study co-authored by Wadhwa and the Kaufman Foundation.

Many tech executives — starting with the late Steve Jobs — have argued that there aren't enough American-born math and science graduates to fill the engineering jobs in Silicon Valley's booming economy, and thus we need to attract, and keep, the best and brightest foreign-born workers. A recent study by the consulting firm McKinsey found that 45% of U.S. employers surveyed say that a "skills shortage" is a leading reason for entry-level vacancies. In a widely discussed 2011 *Wall Street Journal* article, Marc Andreessen, arguably Silicon Valley's top venture capitalist, wrote that "every company I work with is absolutely starved for talent."

Others have called such claims exaggerated, and suggested these jobs could go to American-born tech workers. These critics say the H-1B program allows U.S. companies to train foreign workers and then "outsource" them abroad at lower wages, thus hurting U.S. workers. And some tech experts say that the immigration debate "has to start with the education and re-education of the American workforce."

In any event, this has become a major issue for Silicon Valley. "Why do we kick out the more than 40% of math and science graduate students who are not U.S. citizens after educating them?" Zuckerberg asked. "Why do we offer so few H-1B visas for talented specialists that the supply runs out within days of becoming available each year, even though we know each of these jobs will create two or three more American jobs in return? Why don't we let entrepreneurs move here when they have what it takes to start companies that will create even more jobs?"

The answer, according to Wadhwa, is that the toxic state of U.S. politics and the rancorous debate over illegal immigration have made immigration reform all but impossible in recent years. "Both the Democrats and the Republicans agree that we want the entrepreneurs, the scientists, the doctors, the researchers," Wadhwa told me last fall. "Everyone agrees that we want these people to stay. But there's a stalemate on the issue of amnesty for illegal workers."

There are signs in Washington, D.C., that a grand bargain on immigration reform may be on the horizon, and Zuckerberg and his allies clearly want to influence its contours. FWD.us is calling for comprehensive immigration reform that "begins with effective border security, allows a path to citizenship and lets us attract the most talented and hardest-working people, no matter where they were born." The group is also calling for higher standards in schools, a "much greater focus" on science, technology, engineering and math, and more investment in scientific research.

For Zuckerberg, as for so many Americans, immigration is also a personal issue. "My great-grandparents came through Ellis Island," he wrote. "My grandfathers were a mailman and a police officer. My parents are doctors. I started a company. None of this could have happened without a welcoming immigration policy, a great education system and the world's leading scientific community that created the Internet."