Insight

How Immigration Helps U.S. Workers and the Economy

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The impact of immigration on American workers is an increasingly relevant question. President Trump argues that "decades of immigration have produced lower wages and higher unemployment for our citizens." He also contends that low-skilled immigration is responsible for African-American and Hispanic unemployment. Other members of the executive branch are equally concerned. Attorney General Jeff Sessions drafted legislation just last year which would have reduced high-skilled immigration in order to help American workers.

The president's claim assumes that immigrant workers increase labor market competition and drive down wages for everyone. Fortunately, this reasoning is misguided.

The number of jobs in the United States is not fixed. As the U.S. population and labor force has increased, so has total employment. Therefore, adding foreign workers to the economy does not crowd-out employment for native workers. To the contrary, immigration generates growth and employment opportunities by increasing the total number of people in the United States. A larger population leads to increased consumption levels, higher demand, and more production.

One study from the National Bureau of Economic Research (NBER) found that immigration leads to labor specialization, which increases total factor productivity. This is not surprising: research shows that immigrant and native workers are imperfect substitutes. They gravitate toward different types of jobs due to varying language skills, education levels, and levels of experience. These productivity advances have resulted in income gains for American workers. Specifically, the study found that a 1 percent increase in immigrant employment per state leads to a 0.5 percent increase in income per worker.

Other studies have confirmed the income benefits of immigration. While examining high levels of immigration to the United States between 1990 and 2004, researchers found that native-born U.S. workers experienced corresponding short-run and long-run increases in wages. Approximately 90 percent of the U.S.-born labor force gained from immigration, while the individuals whose wages were most negatively affected were previous immigrants. Immigration also caused small, negative effects on the wages of U.S.-born workers without a high school degree.

It is not uncommon for U.S. workers with less than a high school education to be somewhat negatively affected by immigration. This is because their skill sets more closely match new immigrants than other workers. However, workers without a high school degree only represent 8 percent of the U.S. labor force. Improving the availability of job training for all workers, including those displaced by immigration, would help to ease these labor market shifts.

Studies into high-skilled immigration's impact on workers and the economy have produced similar results. A recent study examined the growth of computer science workers on temporary H-1B visas from 1994 to 2001. It concluded that high-skilled immigration lead to the creation of more IT firms in the United States and lowered prices of IT goods by 1.9 percent to 2.4 percent. This gives consumers a wider variety of options while simultaneously increasing their purchasing power.

The study also found that employment and wages of U.S. computer science workers would have been higher if the government had restricted high-skilled immigration. High-skilled immigration increased the number of individuals competing for computer science occupations, which shifted some U.S. workers to non-computer science fields. However, this shift increased the productivity of non-computer science workers, increased demand for these workers, and consequently boosted their wages.

The consensus of academic literature is that immigration is an overall asset to U.S. economy. This is particularly evident when examining recent analyses by Moody's Analytics of Donald Trump and Hilary Clinton's proposed economic policies. In President Trump's case, removing all undocumented immigrants from the labor force was predicted to trigger an economic recession within one year. This is consistent with previous American Action Forum research, which found that removing undocumented immigrants would reduce GDP by $380 billion to $620 billion and create shortages of at least 4 million workers. In Hilary Clinton's case, increasing legal immigration would increase both total employment in the United States and real GDP growth. According to the report, "there is no policy she has proposed that provides a more potent boost to the economy than immigration reform."

Moody's is correct in asserting that increased immigration boosts economic growth. However, immigration is also instrumental in preventing economic decline. Birth rates in the United States have been below the replacement rate, the rate at which a generation can exactly replace itself, since 1971. Without immigration, the U.S. population would shrink. This would cause a corresponding decrease in both the labor force and overall economic activity, which may trigger deflation.

A draft executive order from the White House states that U.S. immigration policy should "prioritz(e) the protection of American workers … and the jobs they hold." It instructs the administration to review current regulations concerning immigrant workers and propose new regulations to "restore the integrity" of employment-based visa programs. Instead of restricting employment-based immigration, the president should recognize its benefits for both U.S. workers and the economy.