INTRODUCTION

THE ECONOMICS OF IMMIGRATION

Alex Nowrasteh

Immigration was the most distinctive policy issue debated in the 2016 presidential election. The issue dominated the election in sharp contrast to every other election in U.S. history, where it was generally a minor concern. In his first speech announcing his candidacy for president, then-candidate Donald J. Trump argued that immigration, legal and illegal, posed a serious problem for the United States. He said, Mexico is “sending people that have lots of problems. . . . They’re bringing drugs. They’re bringing crime. They’re rapists. And some, I assume, are good people.”

Trump’s criticism hinges on the economic impact of immigrants. His unexpected victory put immigration at the front and center of the national debate and forced us to take his policy recommendations seriously. Candidate Trump emphasized border security and a border wall to stop illegal immigration, but he also spoke about his desire to restrict legal immigration. His statement of principles on immigration, if turned into law, would cut legal immigration by about two-thirds and potentially halt illegal immigration.

This edition of Cato Journal brings together leading scholars who have written widely on the economics of immigration. They presented their research at a Cato Institute conference on “The Economics of Immigration” on September 2, 2016, funded by the generous support of the Searle Freedom Trust and the Ewing
Marion Kauffman Foundation. This volume is based on their conference papers, which summarize some of their most relevant and interesting findings related to the economics of immigration. As President Trump finishes his first year without significant new immigration legislation, this volume is published at just the right time to add to the public debate.

In the language of economics, Trump’s criticism of immigrants is that the costs they impose on American society exceed the benefits they produce. Although he focuses on their supposed criminal behavior, the low rate of immigrant incarceration and falling crime rates in areas with more immigrants indicate that this is not a serious argument against immigration.

The human capital component of his complaint is more subtle but also more serious. Immigrants do tend to be less educated than natives although the gap is narrowing. Their lower levels of human capital mean that they are generally less productive and thus earn lower wages, potentially competing with many lower-skilled Americans.

Immigration could have an overall positive effect on American economic growth but lower wages for Americans at the low end of the labor market. The articles by Giovanni Peri, Ethan Lewis, and Alan de Brauw, show that is not the case. They find immigration has had only a small effect on the wages of native-born Americans.

Although the impact of immigrants on the labor market gets the most attention in public policy debates, the impact on the housing market is also important. The next three articles discuss that aspect of immigration. Gary Painter examines how immigrants make housing decisions and how those decisions affect local housing markets. Susan Wachter explains how natives and immigrants sort themselves after settling here and how they impact neighborhoods, and Jacob Vigdor explores how immigrants affect county-level economic indicators such as housing prices and finds that they add trillions of dollars in value to the national housing stock.

Immigrant entrepreneurship is an important driver of innovation and firm creation in the United States. Magnus Lofstrom shows that immigrant self-employment has grown dramatically over time and exceeds that of native-born Americans, especially for those with lower education. Benjamin Powell and Ryan Murphy both show how immigration affects political and economic institutions and thus future economic growth.
In the final two articles, Douglas Massey and Bryan Roberts present different explanations for the flow of illegal immigrants. Massey argues that immigration enforcement has virtually no effect on the flow of illegal immigrants to the United States while Roberts contends that it can explain a significant amount of the decline since about 2010. The answer to this debate could determine whether the federal government should continue to spend tens of billions of dollars a year on immigration enforcement. Resolving the issue of what drives flows of unlawful immigration is essential to moving forward with other, more positive immigration reforms.

President Harry Truman famously quipped that he wanted a one-handed economist so they would actually reach agreement and form firm policy recommendations. Many of these articles do not make specific policy recommendations but they do reach firm conclusions that are consistent with the broad findings of the rest of the academic literature that even a one-handed economist could firmly grasp: the economic benefits of immigration outweigh the costs.

Policymakers who are interested in increasing economic growth, entrepreneurship, and other positive economic indicators would get a few messages from these essays. First, a liberalized immigration policy that includes legalization for illegal immigrants and boosts legal numbers of immigrants will have a net-positive impact on native-born Americans. Second, many of the economic problems facing America today that are often blamed on immigrants are not worsened by them. Rather, immigrants have either a tiny effect on those problems or actually help alleviate them. Third, the downside risks of immigration liberalization such as wage competition and the possibility of negative institutional changes that could undermine future growth are at most very small or turn out to be correlated with improvements, respectively.

Immigration is an emotional subject for many Americans. About a quarter of us are immigrants or their children. Virtually all of us can point to relatively recent ancestors who came here from a foreign land. Similarly, many Americans are outraged that so many illegal immigrants have violated American laws. Our hope is that this issue of Cato Journal will help cool some of those emotions and instead shed light on this important policy debate.