

Who Are You Rooting For?

George Borjas on the Economics of Immigration

An Issue Brief by Nayla M. Rush, Senior Researcher
 June 26, 2014

On June 11, 2014, Harvard economist George Borjas gave a [lecture](#) at the Cato institute to talk about the economic impact of immigration and introduce his new book ([Immigration Economics](#)).

These are highlights from his lecture:

Choice of Country: High Return on Skills

About 3 percent of the world population (215 million people) is composed of immigrants. It is obvious that not everybody migrates even when there are no policy restrictions stopping migration. One reason is people choose not to migrate the cost of moving, which is very high. But even if the cost was low, not everyone WANTS to move. The value or “return to skills” attributed to particular skills largely determines one’s place of living.

High-skilled workers settle in places where skills are most valued. A country attracts highly-skilled workers when it gives a high rate of return to skills in comparison to other countries. A country that subsidizes low-skilled labor will attract low-skill workers. The latter is what is currently happening in the United States today.

Economic Assimilation Slowdown

As soon as they come into a country, immigrants embark in a process of change to assimilate economically. They go through various human capital changes such as learning English, moving from one city or state to another, changing occupations etc. We can assess this economic assimilation by looking at the wage gap between immigrants and natives shortly after immigrants enter the country, then 10 years later.

For the U.S., the results are as follows (keeping in mind that the wage gap at the time of entry is usually negative as immigrants may not be fluent in English, and their education or degrees not easily transferable):

WAGE GAP

Year of Arrival	Wage Gap at time of Entry	Wage Gap 10 years later
1965-1969	-23.5%	-12.2%
1975-1979	-31.4%	-18.5%
1985-1989	-33.1%	-26.9%
1995-1999	-27.3%	-27.8%

What we learn is the following: For immigrants who arrived in the 1960s and 1970s, the earning gap narrows down by 10-12 percentage points over a period of ten years. For those who came in the 1980s, the gap narrows only about 7 percent. For immigrants who came in the 1990s, there is NO narrowing of the gap. What we are witnessing, in fact, is a slowdown in economic assimilation. How can we explain this slowdown?

The speed at which immigrants assimilate and the size of their immigrant group in the U.S. are highly correlated. The slowdown occurred in those groups that were largest in size in the U.S. This large-scale immigration led to the creation of numerous economically vibrant “ethnic enclaves.” When joining these enclaves, immigrants see no real need to learn the skills that are rewarded outside those enclaves. What immigrants needed to do in the past to improve their economic status (like learning English, moving to a different town, changing occupations) is no longer deemed necessary. Current immigrants believe they are doing well (at least well enough) WITHIN these enclaves. What this means, however, is that these immigrant groups that are largest in size in the U.S. assimilate at a slower rate.

Costs and Benefits of Immigration on U.S. Economy

To address the impact of immigration on the U.S. economy, an important question needs to be answered: What happens to the U.S. native workforce when immigrants come into the country?

The answer is that wages for a particular native cohort follow a negative trend when immigrants enter that cohort.

What is beyond doubt is that native cohorts that witnessed the largest influx of immigrants in any given decade saw their wages grow the slowest. It is a simple matter of supply and demand. Borjas uses the example of petroleum production: when the supply of oil goes up, the price of oil goes down. In this case, immigration’s supply of workers leads to the price of labor going down. Conversely, for a particular group of labor that does not include immigrants, the price of labor goes up. So, when immigrants come in, the wage of competing workers goes down. Native workers are the big losers in this case. The winners are those who employ immigrants as well the immigrants themselves.

If we do the math, we find that the economic gains do exceed the costs by \$35 billion per year. This number seems important but in the context of the U.S. economy which has a total GDP of \$15 trillion (in 2010), it is negligible. \$35 billion is touted, nonetheless, by those who want to stress the gain of immigration. However, if we are to accept the \$35 billion in gain, we should also emphasize other numbers included in this model.

Let’s concentrate on the losses incurred by native workers. They lose \$402 billion overall in reduced wages.

Meanwhile, there is a \$437 billion in gain for native employers of immigrants.

What immigration does, in short, is transfer wealth. The \$35 billion net gain is, in fact, hiding an immense redistribution of wealth. Immigration takes from U.S. workers to give to U.S. employers of immigrants.

Another important angle to consider: immigration caused the U.S. GDP to increase by \$1.6 trillion. But most of this increase (\$1,575 trillion) goes back to immigrants as wage payments. Back to the calculator: 1,610 minus 1,575 equals 35. \$35 billion of net gain.

Let's recapitulate:

Net loss to Native workers: - \$402 billion.

Net Gains to Native employers: + \$437 billion.

Net Gain for Immigrants: \$1.57 trillion in wages

Net increase in the U.S. GDP: \$35 billion.

Note: Net gains are much higher with high-skill immigration. High skilled immigrants increase the productivity of people around them, this is called "human capital spillover". The type of immigration the U.S. witnesses today (i.e. low-skill immigration) does not allow for such spillovers or for high net gains.

Open Border Costs

John Lennon, imagined "there's no countries", claiming "it isn't hard to do". Borjas disagrees: "it's actually very difficult to do." He goes on to demonstrate his skepticism based on an economic theory model he constructed.

What happens if all borders were to be erased? All the literature on this subject concludes that this will lead to a dramatic world GDP increase paired with ultimate wage equalization. Following Borjas' model, the net gain to the world GDP following the implementation of an open borders policy will amount to \$40.1 trillion (the current world GDP is \$70 trillion). This gain is what people focus on but, again, there are other numbers associated with this model. For the world GDP to increase as such, 5.6 billion people would need to move from developing countries to the developed ones. Six billion currently live in the developing countries. If 5.6 billion people move, this amounts to practically emptying that part of the world. Not to mention that it costs money to move; as we noted earlier, mobility costs are not to be underestimated.

What about the wage effect? Remember, wages in developing countries are much lower than those in the developed ones. Moving people would lead to a decrease in wages in the developed countries by almost 40 percent. In short, open borders policy means workers from developed countries lose 40 percent of their earnings.

Moreover, the developed world, unlike developing countries, has institutions, economic rules and cultural norms that allow for a higher productivity and the efficient use of labor. The arrival of 5.6 billion people might affect the developed countries' infrastructures and edge.

All these issues need to be considered and accounted for before advocating for open borders' policy as the world's savior and poverty eradicator.

Immigration Policy: It Depends on the Hat You Wear

What type of immigration policy should the U.S. pursue and should it be inspired by what immigration economics teaches us? The answer goes beyond mere facts and has more to do with what we want immigration policy to accomplish and the type of country we want the United States to be.

To say things more simply, who do we care for more?

Immigration Economics teaches us that the presence of low-skilled immigrant workers tends to lower the wages of American low-skilled workers. If we care about the well-being of low-skilled American workers who are being hurt by additional competition, our immigration policy will be geared towards minimizing or stopping the entry of low-skilled immigrants. That is one hat we can put on.

But there is another hat we can wear.

Let us assume we are driven by our humanitarian sensibility and care about the poor from all over the globe. Immigration policy, in such a case, is viewed as an immense anti-poverty program giving millions of low-skilled workers a chance to experience the American dream. Despite the price attached to our generosity, a price our disadvantaged low-skilled workers are going to have to pay, our humanitarian hat is on and our doors open for the poor.

Facts alone do not determine our immigration policy. What it really comes to is our set of values: What hat do we have on and whose well-being do we care most about?

Which Path to Pursue?

Economics does not tell us which path to pursue when it comes to immigration policies or what hat to wear. It just gives us facts and numbers relative to the costs and benefits of each different path.

What Borjas tells us in a nutshell is the following: To know which path to pursue (or which hat to wear), ask yourself a simple question: Who am I rooting for?

If you know the answer to this question, you'll know which path to follow.