

We Wanted Workers — Instead We Got People

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George J. Borjas has remarked that, when growing up in Cuba, he developed the ability to memorize required Marxist indoctrination and then forget it as quickly as practicable. When it comes to immigration, it is evident that his memory and analytical prowess are exemplary. Borjas has written several books on immigration and is no stranger to the issue.

In his latest book, *We Wanted Workers: Unraveling the Immigration Narrative*, Borjas lucidly describes how business and political special interests wanted cheap foreign workers. Instead, however, we got *people* with all the commensurate social, demographic, and economic consequences. For a book written by a Harvard labor economist, it is surprisingly readable.

Borjas understands that there are conflicting points of view regarding immigration. He scrutinizes the common precept that immigration results in overall economic benefit. Borjas demonstrates that there is little net gain from immigration, but it does dramatically differentiate winners from losers. The winners tend to be employers, while the losers tend to be low-wage Americans who are forced to compete with immigrants (and illegal aliens) at lower wages.

Paul Collier, professor at Oxford University, wrote that “social scientists have strained every muscle to show that migration is good for everyone.” Borjas points out that this is a damning statement about social science research on immigration, and that much of the research on immigration is ideologically motivated. Borjas notes that he has kept his distance from ideologues, remarking that regarding his Cuban Communist education, “those wild-eyed teachers taught me to distrust authority and to be skeptical — very skeptical — of expert opinion.” This has led Borjas to conduct his own independent research into the question that no one seems to be ask-

ing: “How exactly would one measure the assimilation of immigrants in a world where the different waves had different capabilities?”

IMMIGRATION AND INTERNATIONAL TRADE

Borjas notes that the value of imports and exports as a fraction of gross domestic product nearly tripled from 11 percent to 30 percent between 1970 and 2015. The foreign-born component of our workforce similarly tripled from approximately 5 percent to more than 16 percent.

WE WANTED WORKERS

Unraveling the Immigration Narrative

By George J. Borjas

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Free trade is perceived as reducing global economic inequity while simultaneously making countries wealthier. Standard economic models project that libertarian removal of immigration restrictions would yield *tens of trillions* of dollars annually. Yet NAFTA had increased economic disparities between the United States and Mexico by 10.6 percent between 1994 and 2004.

Borjas contends that economic models predicting massive gains from mass immigration ignore the full consequences. Using World Bank data, he constructs a scenario of the world divided into an industrialized North and impoverished South. Hypothetical removal of immigration restrictions would lead to a massive 60 percent increase of world GDP by \$40 trillion yearly. Cumulative gains would amount to a *quadrillion* dollars! Yet two caveats of such a scenario are conveniently swept under the rug. One is that *billions* of people would need to migrate to the North to make this happen. Second is that income of capitalists worldwide would increase by nearly 60 percent, while wages of native Northern workers would markedly diminish. The entire cultural,

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social, and political balance of the industrialized world would be turned upside down. The redistributive consequences of open borders indeed would be massive, no matter what the *Wall Street Journal* thinks.

In his book *Exodus: How Migration is Changing Our World*, Paul Collier noted that “one reason poor countries are poor is that they are short of effective organizations” and “migrants are essentially escaping from countries with dysfunctional social models.” Borjas observes regarding these “spillovers” that:

For unrestricted immigration to produce those trillion-dollar bills, billions of people must be able to move to the industrialized economies without importing the institutions, the dysfunctional social models, the political preferences, and the culture and norms that led to poor economic conditions in the sending countries in the first place. It seems inconceivable, however, that the North’s institutional, social, and political fabric would remain intact after the entry of billions of new persons.

Collier frankly summarizes the dilemma: “Uncomfortable as it may be . . . migrants bring their culture with them.”

OUR IMMIGRATION HISTORY

Over 92 million foreigners have migrated to America since the settlement of Jamestown in 1607. Yet from an early date immigration was restricted. By 1645, the Massachusetts Bay Colony prohibited entry of paupers and in 1691, the Province of New York required entrants not to be a burden.

By 1790, American had welcomed half a million immigrants. Two-thirds came from Great Britain and 20 percent from Germany. The Napoleonic Wars induced nearly 1.4 million Germans to emigrate during the 1840s and 1850s. At the same time, the Great Famine caused 1.7 million Irish — one-fifth of Ireland’s population — to migrate to America. Then in 1875, the Supreme Court ruled that immigration policy came under the purview of the federal government.

Congress suspended Chinese immigration in 1882 and expanded the list of exclusions in 1917 to include polygamists, political radicals, and those with tuberculosis. Yet it cannot be doubted that immigrants helped build America. For example, in 1914, 75 percent of the Ford Motor Company workforce consisted of immigrants.

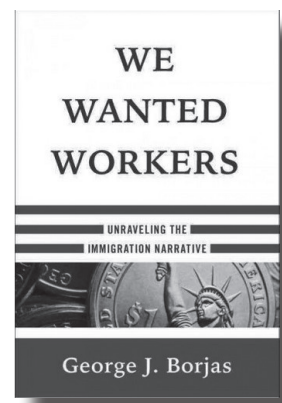
In 1924, Congress reduced immigration and implemented the “national origins quota system” so that 150,000 annual visas were allocated in proportion to inhabitants from a country in America’s 1920 population.

This was radically reversed by the 1965 immigration act that gave preference to visa applicants with relatives already residing in the United States. In other words, it emphasized family reunification. Low estimates of the consequences of this change were monumentally wrong. Borjas observes that these forecasts completely missed the impact of Asia and Latin America as sources of immigration. Demographers now project that children of current immigrants will comprise at least 18 percent of U.S. population by 2065.

The 1986 Immigration Reform and Control Act was the first of a series of amnesties for illegal aliens. It made it illegal to hire illegal aliens, but unfortunately did not require employers to determine authenticity of worker documents. Thus, illegal immigration continued unabated.

HOW MANY ILLEGAL ALIENS?

Borjas notes that in 2014 42.2 million foreigners resided in the United States. The Department of Homeland Security (DHS) claims that there were 11.4 million illegal aliens in the United States in January 2012, and that that number has remained unchanged since 2006. Sixty percent of this number consists of aliens from Mexico. El Salvador and Guatemala account for 11 percent.



He explains the DHS calculation: legal immigrants are accurately counted. The Census Bureau conducts surveys asking where people are born. The difference between

the number of self-reported foreign born and legal immigrants represents the number of illegal aliens living in America (Borjas uses the politically correct misnomer “undocumented immigrants”).

However, Census estimates include a 10 percent undercount rate, which turns out to be a crucial variable. For example, with a 20 percent undercount rate, the estimated number of illegal aliens would rise to 13 million. With a 30 percent undercount, it would approach 15 million.

(Another approach to estimating the number of illegal aliens in the United States is the border apprehension rate contrasted with the “get away” rate. This is documented in the Summer 2007 *Social Contract* issue, “How many illegal aliens are in the U.S.?”)

WHO IMMIGRATES TO AMERICA?

British Prime Minister Tony Blair once remarked about immigration: “A simple way to take measure of a country is to look at how many want in...and how many

want out.” Over 92 million in total have succeeded in migrating to America. Thus immigrants have *self-selected* — that is, they chose to immigrate and were not randomly selected individuals. Yet many potential immigrants decided to remain at home because of family, social, geographic, and cultural ties, and the cost of moving. Borjas reports that in economic terms the *perceived* total costs of moving, including all of these factors, can exceed \$250,000, thus acting as a formidable psychological barrier to migration.

Borjas observes trends in entry wages:

The newest entrants in 1960 earned 11 percent less than natives. By 1990, the newest entrants had a 28 percent wage disadvantage. It seems that the skills of successive immigrant waves — relative to those of natives — declined dramatically during that period. The entry wage has stabilized since 1990; newly arrived immigrants in 2010 still earned about 28 percent less than natives. As I noted earlier, my initial interest in immigration research was sparked precisely by the notion that these types of productivity differences might exist across immigrant waves.

The decline in the entry wage of immigrants is irrefutable. But what does it mean? One obvious answer is that it does not really reflect a drop in immigrant productivity at all, but rather a change in the U.S. labor market.

Borjas notes that the two platitudes used to describe immigrant self-selection, “the best and brightest” versus “the tired and the poor,” are unconvincing ideological arguments. He concludes that:

Put simply, skills flow to those places that offer the highest reward for them. The rule of thumb for immigrant selection is straightforward: the United States attracts high-skill workers from countries with egalitarian income distributions (those countries where high-skill workers do not do so well), and low-skill workers from countries with a lot of income inequality (those countries where low-skill workers do very poorly).

Daniel Chiquiar and Gordon Hanson developed an empirical approach for determining the selection that actually takes place. The conclusion indicates that Mexican immigrants come from the middle of the Mexican education distribution. Subsequent analysis using this approach indicates that Mexicans who chose to move to America earned approximately 30 percent less than the average person who remained in Mexico. Earnings-based measurement is a more comprehensive approach and indicates that Mexican immigrants do come dispro-

portionately from the low-skilled workforce.

Borjas notes that even so, “the 50 percent wage gap between natives and Mexicans would drop to about 15 percent if we simply compared workers with the same education and English-language proficiency.”

ASSIMILATION

Borjas investigates patterns of assimilation of groups of immigrants, including Cubans in Miami, where there has been little pressure to assimilate. He observes that:

The main lesson from the evidence is obvious, though often ignored: immigrants, like the rest of us, respond to incentives. If immigrants find it profitable to assimilate, they will take actions that facilitate the assimilation process.

He observes that wage growth of immigrants who arrived in the late 1970s was twice as large as wage growth of those arriving in the late 1990s. In addition, the newer waves were slower to develop English fluency. He notes that only immigrants who had arrived between the two great waves bracketing the twentieth century experienced substantial lifetime economic improvement.

He points out that interpreting the gap between earlier and newer arrivals is often viewed as the result of assimilation, but this often leads down the wrong path. He notes that another reason for the disparity between group performance is somewhat obvious: *perhaps they are different groups of people*. It was this question that initially sparked his interest in immigration economics.

Tracking children of immigrants shows a modest economic improvement. Borjas writes:

In 1970, the typical immigrant earned 1.5 percent more than the average worker. By 2000, the typical second-generation worker earned 9 percent more. In other words, the intergenerational improvement was about 8 percent — rather than the 30 percent implied by the point-in-time comparison...

Similarly, the 1940 census reports that immigrants had a wage advantage of 8 percent. By 1970, the working children of those immigrants had a 17 percent wage advantage. Again, the intergenerational improvement between 1940 and 1970 is about 9 percent.

Ellis Island immigrants were encouraged to assimilate, while large numbers of recent immigrants are slower to assimilate. Regretfully, assimilation ideology has largely vanished in the modern era. The explosive growth of the welfare state has also altered the selection of those choosing to migrate to America. Borjas remarks

that “the lesson to keep in mind is that the melting pot will operate most efficiently when *that* outcome is in the immigrants’ self-interest.”

COSTS AND BENEFITS OF IMMIGRATION

Borjas investigates costs and benefits, observing that immigrants do jobs that natives do not want to do *at the prevailing wage*. He notes that the most credible evidence based on data indicates that a 10 percent increase in the size of a skill group probably reduces the wage of that group by approximately 3 percent.

He points out that:

As with free trade, the laws of supply and demand imply that the dollar gains accruing to the natives who gain must be numerically larger than the dollar losses suffered by the natives who lose. On the whole, therefore, immigration increases the wealth of natives, and the difference between what the winners win and the losers lose is called the “immigration surplus.”

It is worth emphasizing that the distributional pain is the flip side of the economic gain. And, ironically, the greater the distributional pain, the greater the economic gain.

Borjas concludes that the most credible estimate of this immigration surplus is about \$50 billion annually. But he notes that conservative estimates of the short-term fiscal burden of mass immigration is about the same. There it is reasonable to conclude that immigration is a net economic wash. Borjas writes that:

The argument that open borders would exponentially increase the economic gains from immigration depends crucially on the perspective of immigrants as workers rather than immigrants as people. The multi-trillion-dollar gains promised by the proponents of open borders could quickly disappear (and even become an economic debacle) if immigrants adversely influence the social, political, and economic fabric of receiving countries.

IDEOLOGICALLY DRIVEN POLICY

The immigration debate is about much more than economic gain. Borjas is very clear that economic models are not very useful in revealing the full consequences of policy changes. Such shortsightedness is ingrained into the world paradigm of economists:

... the notion that making the “economic pie” accruing to the native population as big

as possible is the right thing to do. This type of goal is certainly ingrained in the way that many economists think. The pursuit of “efficiency,” of adopting policies that maximize some notion of aggregate wealth, becomes almost second nature after a few years of training in economics.

He observes that:

Despite all the wishful thinking and the dominant narrative, immigration does create winners and losers. The adoption of any immigration policy implicitly makes a statement not only about how much we care about immigrants as compared to natives, but also about how much we care about this particular group of natives versus that particular group of natives.

Let me state this point as clearly as I can. In the end, the choice of an immigration policy is driven by the answer to: Who are you rooting for? The mathematical models and the statistical manipulations might put a veneer of science on the policy proposals, but the policy choice is driven mainly by our ideological conviction that one group should benefit at the expense of another.

Swiss novelist and playwright Max Frisch once quipped about immigration: “We wanted workers, but we got people instead.” Borjas writes that:

One underlying theme of this book is that viewing immigrants as purely a collection of labor inputs leads to a very misleading appraisal of what immigration is about, and gives an incomplete picture of the economic impact of immigration. Because immigrants are not just workers, but people as well, calculating the actual impact of immigration requires that we take into account that immigrants act in particular ways because some actions are more beneficial than others. Those choices, in turn, have repercussions and unintended consequences that can magnify or shrink the beneficial impact of immigration that comes from the contribution to widget production.

We are now witnessing the cumulative redistributive and socially disruptive results of decades of mass immigration into America. Economics alone cannot justify the transformative changes that have been foisted upon America. ■