

Where are the Leaders?[†]

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Immigration policy is turning into a hot-button issue in this fall's upcoming general elections. According to a recent CBS News poll nearly 9 out of 10 people surveyed said immigration was a serious problem. As an economist I find this startling. The issue reminds me of other contemporary debates where much political capital is expended on either unlikely events (deflation in the U.S.) or misdiagnosed problems (the alleged link between the Chinese currency and the U.S. trade deficit).

First, consider the economic benefits of immigration. Note that generally speaking immigration in the United States is of two types: immigrants possessing very high levels of skills (the best and brightest); and immigrants possessing low levels of skills. I think the perceived problem is focused on the latter, low skilled group, so my comments focus on the economic effects of this group. Now, even the clueless among us recognize that the prices we pay for certain things (gardening/landscaping services, household services, restaurant services) are lower because of the increased supply of people (immigrants) willing to do these things. However, increasingly immigrants are working directly in the \$600 billion construction services industry. It is naïve to think that immigrants have not contributed to the tremendous growth in this sector of the U.S. economy. (The mid 1980s-late 1990s delivered the longest, strongest economic expansions in U.S. history). These lower prices give us more real income to buy and do the things we want.

But the story doesn't stop there. Think about the jobs generating capacity of immigrants via their role as consumers. A key example is housing: the demand for housing has kept rental values high, both for homes and for commercial properties, as services grow to fulfill ethnic demands. These are net new businesses and jobs, since they would not have been there without immigration.

But what about the cost side? Most stories mention the strain on government finances, yet what is generally missed is the contribution to tax revenue made by immigrants. Increased business tax revenue from those firms specifically targeting immigrants is one source. Additionally, many illegal immigrants use 'made-up' social security numbers; they contribute to the social security trust fund while no corresponding government liability is incurred! Another source we should not overlook are the taxes immigrants pay indirectly as part of their rent, or directly via home ownership, or user fees (auto registrations, for example), and sales taxes paid. Immigrants contribute directly to government tax revenue in these ways and others, and a proper accounting needs to acknowledge these contributions.

Oh, but what about the costs; you know, the increased unemployment and lower wages? Well, sorry to disappoint, but among the studies that have attempted to measure these effects, the consensus is that there is only a tiny effect – on the order of *plus or minus* 1-2%. Why is the effect of immigration so small? The primary reason is that the growth of low cost labor generates opportunities for businesses to grow. Any change in the status quo generates both winners and losers. Some domestic workers lose their jobs while others get

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promoted to new positions managing the new workforce (with increased pay). When measuring the costs/benefits we need to be careful to include both aspects. For the nation as a whole, unemployment (now at 4.8%) is below long-term 1960-2006 averages (5.9%) – so there doesn't appear to be an overall unemployment effect either.

Doing something versus doing the right thing

Why all the fuss? My speculation is that it's a political thing: politicians want to avoid bruising debates on issues where a lot is at stake, and instead take 'tough' positions on small issues where chances of alienating voters are fewer. Any domestic policy initiative – like fixing health care, the budget deficit, or campaign finance reform, would undoubtedly engage debate both from the public and from other politicians. Debate stalls 'progress', and makes politicians look ineffective. The other option is to focus on an arcane issue that most experts consider minor: bash the Chinese on exchange rates, the Europeans on trade, or those undocumented aliens. On these issues, the debate is pretty much one sided, and the level of rhetoric doesn't have to match the facts. Real leaders address serious issues and succeed with vision and diplomacy. I hope we see some real leaders step up this fall.