

Tides of Economic Reality

By Andrew B. Grimm

Millard North High School

## Tides of Economic Reality

When King Canute ordered the tide to stop and got his feet wet anyways, his courtiers saw the futility of attempts to undo natural law. Today, “people are trying to command the metaphorical tide of immigrants to stop and are simply getting their feet wet for their trouble” (Brown-Gort 1). Some argue for enforcement of the existing immigration laws’ quotas. Yet the U.S. has already attempted to do so, “tripling the size of the Border Patrol and quintupling its budget...to virtually no avail” and could not enforce the restrictive supply of visas without “the creation of a virtual police state” (Jacoby 5). Because of the inadequacy of the current laws to account for economic reality, reform should be implemented that matches the supply of visas to demand.

Historically, the influx of immigrants provided a boon to the U.S. economy. Other nations subsidized the cost of raising immigrants, while the U.S. benefited from a cheap source of labor that freed highly-skilled workers to endeavor in a more productive line of work (Kennedy 3). In turn, cheap labor allowed industry to considerably cut costs and further industrialize. Immigrants fed the demands of a hungry economy, as they do today.

In fact, immigrants may be even more beneficial nowadays than before. Globalization allows a “brain circulation” rather than “brain drain”. Immigrants bring with them the cultural and linguistic know-how to coordinate trade, investment, and entrepreneurship with their former homeland, to more fully utilize comparative advantages (Saxenian 28). Foreign brains power various Silicon Valley firms and universities, setting the stage for the R&D necessary to realize productivity growth (American 1). The entry of highly-skilled immigrants to work in conjunction with highly-skilled natives contributes to growth, what Lucas dubs the human capital externality, a multiplier that comes from the clustering of human talent (Ragan 2).

Without inflows of both skilled and unskilled labor, the U.S. would face a demographic time bomb and be unable to meet labor demand. The Bureau of Labor Statistics estimates that 56 million new jobs will become available in coming years as 75 million baby boomers retire and fertility rates approach

replacement levels (Jacoby 2). Without more visas, entire sectors of the economy would find themselves at a loss for labor. For example, restrictive measures in Colorado intimidated illegal and legal workers alike, forcing farmers to turn to convicts for harvesting (at a greater cost), or let their produce rot in the fields (Frosch 25).

Fiscally, the burden of illegal immigration often falls on the state and local governments to pay for education, health costs, and prisons of “free-riders”. Yet that drain on local resources is thought to be compensated for by a federal surplus in the form of unclaimed social security and other federal taxes (Jacoby 3). More visas might help newly documented immigrant access private health insurance, limiting that burden on Medicaid. Bringing workers into the system legally would undermine human smugglers and keep a tab on workers for national security purposes (Decapitating 1). Most of all, an open visa policy would save U.S. taxpayers the trouble of funding enforcement on the backward system we have now.

Opposition to immigration and worker visas stems from a fear among Americans that immigrants will undercut wages. In a simple labor market, it directly follows that an increase in the supply of labor will decrease the wage paid, but only if immigrants are direct competitors. Even assuming direct competition where many instead see complementarity (Jacoby 4), lower labor costs would increase profit. Economic profit would “tempt new firms to enter the market, compete for workers, and bid wages up” (Displacement 2). In the longer term, a dynamic economy will adjust to the labor resources available.

Yet economic and demographic conditions in the U.S. create greater labor demand. If demand grows equally with supply, then the wage rate would remain the same, even in the short run. In this sense, immigration should be viewed as a necessary external supply to keep wage pressures from mounting. At a time of rising core inflation, immigrants cushion tight labor markets, easing inflationary pressures and Bernanke’s stress. By keeping wages relatively stable, immigrants may actually protect domestic jobs from foreign competition and protect real wages from inflation (Displacement 1). Some even argue that immigration substantially contributed to the positive productivity shocks in the late 1990s that allowed the

economy to “weather [upward] wage adjustments” (Gertler qtd. in Lanman 2). Greater availability of visas would be in the nation’s best interest as “documented immigrants...might be more willing to relocate to stronger job markets” as they would no longer fear deportation (Todd 15).

Immigrant households not only provide labor in the resource market, they act as consumers in the product market. They contribute to aggregate demand through their own personal consumption expenditures, but oftentimes they also send money back home to their families. While remittances are a transfer payment out of the U.S., they support prosperity in immigrants’ home nations, and indirectly create a greater market for U.S. exports (Quirk 27).

Additionally, a lack of immigration might best be seen as deadweight loss. Immigration brings marginal benefit to the U.S. in terms of heightened per capita GDP, but incurs the former homeland little marginal cost if the emigrant was chronically unemployed and, therefore, a drain on public resources (McConnell et Brue 704). Stanford economist Clark Reynolds estimates that Mexico, the U.S.’s largest supplier of immigrant labor, would “need to grow at the improbably high rate of...7%” to incorporate natural population growth into its labor markets (qtd. in Kennedy 3). If marginal benefit exceeds marginal cost in the view of both nations, restrictions on the free movement of labor would necessarily limit real world output.

The above assumptions of marginal benefit to both nations only follow as long as immigrants find gainful employment, rather than acting as a drag on the U.S. public. Since U.S. law blocks even documented immigrants from receiving welfare for their first five years in the nation, immigrants would be unable to sustain themselves on transfer payments without employment. In all actuality, immigrant men are one of the most employed groups in the United States, and their communication to families back home that “the job market in...Detroit is flat while that in Las Vegas is booming” helps to maintain a balance between supply and demand and limits labor market imbalances (Jacoby 3). However, existing restrictive laws inhibit the free flow of labor and increase migration costs.

Fundamentally, the economic growth caused by immigrants will have some distributional effects on income. In the short run, immigration “redistributes wealth from unskilled workers, whose wages are lowered by immigrants, to skilled workers and owners of companies that buy immigrants’ service, [and]...consumers who use the goods and services produced by immigrants” (Borjas 4). Thus, open borders provide a stronger economic incentive for the population to move towards greater education and acquisition of skills, rather than the incentive towards the status quo that restrictions would create. In other words, open borders create an incentive for society to productively distribute its labor resources.

Contrary to many worries, assimilation will come with time. Even immigrants with relatively few skills integrate themselves rapidly and, over time, acquire skills that allow them to contribute to a greater extent to the economy (LaLonde et Topel 300). A legal-institutional environment that accommodates immigrants would encourage acculturation and expedite their integration into our economy; “on the contrary, denial and the vast illegal world of second-class citizens it creates are among the biggest barriers to assimilation today” (Jacoby 8).

It’s time the U.S. supplied more visas and brought its policies in line with the economic and demographic realities of immigration rather than “seeking to repeal the laws of supply and demand” (Jacoby 3). Realistic reform should be enacted now, before we drown in the King Canute-defying tides of failed crackdowns, resultant fiscal debt, and lose an important source of labor to other nations bending over backwards to find new labor (Where 1).

## Works Cited

- "American Idiocracy: Why the Immigration System Needs Urgent Fixing." Economist 22 Mar. 2007. 22 Mar. 2007 <www.economist.com>.
- Borjas, George J. "The New Economics of Immigration." The Atlantic Nov. 1996. 17 Jan. 2007 <www.theatlantic.com>.
- Brown-Gort, Allert. "The Other Side of the Story." Notre Dame Magazine (2006).
- "Decapitating the Snakeheads." Economist. 17 Jan. 2007 <www.economist.com>.
- "Displacement Activity." Economist. 17 Jan. 2007 <www.economist.com>.
- Frosch, Daniel. "Inmates Will Replace Wary Migrants in Colorado Fields." New York Times 4 Mar. 2007, sec. 1: 25.
- Jacoby, Tamar. "Immigration Nation." Foreign Affairs (2006). 17 Jan. 2007 <www.foreignaffairs.org>.
- Kennedy, David M. "Can We Still Afford to Be a Nation of Immigrants?" The Atlantic Nov. 1996.
- Lalonde, Robert J., and Robert H. Topel. "Immigrants in the American Labor Market: Quality, Assimilation, and Distributional Effects." The American Economic Review 81 (1991): 297-302. JSTOR. 17 Jan. 2007.
- Lanman, Scott. "Bernanke's Puzzle: Job Market Won'T Slow with Economy." Bloomberg 30 Jan. 2007. 2 Feb. 2007 <www.bloomberg.com>.
- McConnell, Campbell R., and Stanley L. Brue. Economics: Principles, Problems, and Policies. 15th ed. New York: McGraw-Hill/Irwin, 2002. 702-705.
- Quirk, Matthew. "The Mexican Connection." The Atlantic Apr. 2007: 26-27.
- Ragan, Kelly. "Cities and Growth." 11 Sept. 1998. San Francisco: Federal Reserve Bank of San Francisco, 1998.
- Saxenian, Annalee. "Brain Circulation: How High-Skill Immigration Makes Everyone Better Off." The Brookings Review 20 (2002): 28-31.

Todd, Tim, ed. "Can Immigration Reduce Imbalances Among Labor Markets." Ten Spring 2006: 10-15.

"Where are All the Workers?" Businessweek 9 Apr. 2007. 4 Apr. 2007 <[www.businessweek.com](http://www.businessweek.com)>.