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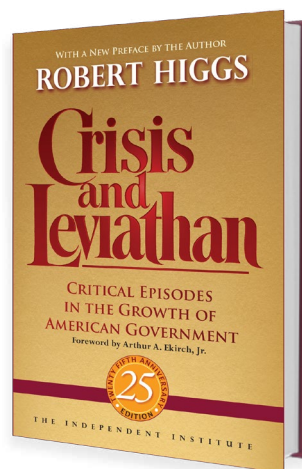
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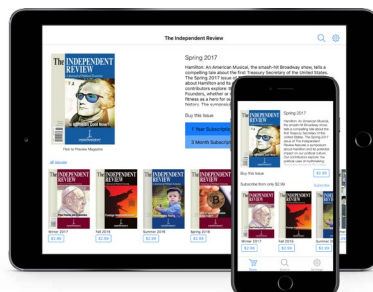
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# Lessons from Immigration Economics

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GEORGE J. BORJAS

The “economistic” perspective has greatly influenced how many observers think about the benefits and costs of immigration. In this perspective, immigration is like international trade. After all, both involve flows across national boundaries. In the case of trade, manufactured widgets are transported from one country to another. In the case of immigration, human beings transport themselves across those boundaries.

Think of what it means to import that proverbial widget. It did not create itself out of thin air; it was manufactured by combining physical resources with some labor inputs. For example, making a single widget in China may require two high-skill workers to spend a month doing the design work and ten low-skill workers to spend a year actually producing the piece. Importing a Chinese-made widget then resembles the immigration of two high-skill Chinese workers for a month and the immigration of ten low-skill Chinese workers for a year. Immigration is indeed like trade, except that instead of importing the finished widget, we are importing the raw labor that can manufacture that widget domestically.

The accumulated knowledge from decades of research implies that international trade, *on net*, can have very beneficial economic impacts, creating an instinctive bias toward viewing this type of “worker migration” favorably. We already know that international trade increases the size of the economic pie. Therefore, the argument goes, immigration must also be beneficial. After all, importing workers seems equivalent to importing widgets.

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**George J. Borjas** is Robert W. Scrivner Professor of Economics and Social Policy at the John F. Kennedy School of Government at Harvard University.

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In the 1950s and 1960s, West Germany and other European countries, heavily influenced by the economic perspective, recruited and imported hundreds of thousands of guest workers, including many from Turkey. Those workers were viewed as the robotic labor inputs that underlie the argument that immigration, like trade, generates a net economic benefit for the receiving country.

However, the presumed economic gains that result from looking at the world using the myopic lens through which immigrants are seen as a collection of robotic labor inputs can clash with reality when we view immigration from a much broader and longer-run perspective. Over time, the impact of the “temporary” workers who come in for a month or a year to produce those widgets domestically is not simply the sum of their contribution to widget production. By 2011, Turkish immigrants and their children composed almost 4 percent of the German population, and the question of how this ethnic group fit into German society had become a central policy concern there. Reflecting on the European experience with millions of guest workers, the Swiss writer Max Frisch made what I think is the single most insightful observation ever made about immigration when he quipped: “We wanted workers, but we got people instead.”

In short, viewing immigrants as purely a collection of labor inputs can lead 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 impact of immigration requires that we take into account that immigrants act in particular ways and that 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 given by the value of their contribution to widget production. Much of my evolution in how I think about immigration has resulted from attempts to incorporate Max Frisch’s insight into my academic work.

But a second factor has also influenced my thinking and in particular affected how I “read” and interpret the voluminous literature on the economic impact of immigration. Paul Collier, a renowned British public intellectual and a professor at Oxford University, published a book in 2013 entitled *Exodus: How Migration Is Changing Our World*. Collier, whose work mainly addresses questions in development economics, never directly worked on immigration issues in his academic work. In *Exodus*, he argues that the presumed large benefits that immigration may impart on receiving countries can be greatly reduced as the number of immigrants increases substantially and the migration flow continues indefinitely.

Regardless of how one feels about this particular conclusion, I found it particularly insightful to read Collier’s overall perception of the social science literature that he reviewed as he wrote *Exodus*: “A rabid collection of xenophobes and racists who are hostile to immigrants lose no opportunity to argue that migration is bad for indigenous populations. Understandably, this has triggered a reaction: desperate not to give succor to these groups, *social scientists have strained every muscle to show that migration is good for everyone*” (2013, 25–26, emphasis added).

This is as damning a statement about the value of social science research on immigration—and probably about the value of social science research on practically any politicized and contentious policy issue—as one can find. As far as I know, Collier is the first distinguished academic to acknowledge publicly that social scientists have constructed an intricate narrative where the measured impact of immigration must be shown to be “good for everyone.” By now, I would imagine, the affected muscles of those so-called scientists have strained so hard that they have achieved Schwarzeneggerian proportions.

I never made such an assertion in public. But as those who have heard me discuss related issues in private over the years well know, I have had a gnawing and growing suspicion that a great deal of the social science research—particularly outside economics but certainly not exclusively so—was ideologically motivated. Much of the academic research, I have long thought, was being censored or filtered to present the evidence in a way that would exaggerate the benefits from immigration and minimize the costs. The spin was often very subtle, but it could be detected, as Collier did, if one bothered to look.

By emphasizing the economic perspective, for example, much of the existing research ignores the implications of the many decisions potential immigrants must make, including whether to migrate or not, whether to assimilate or not, and so on. And many of those decisions might easily shift the emphasis away from the notion that immigration is “good for everyone.” Similarly, much of what we think we know about the economic impact of immigration is driven by assumptions that are made to simplify the conceptual model or the empirical analysis. Needless to say, assumptions are not randomly born, and they matter. Finally, the typical study of the economic impact of immigration that uses an underlying economic model to frame the question often produces many insights. Some of those insights, however, detract from the narrative that Collier detected and are often hidden away in the attic of inconvenient truths.

This essay, paying close attention to these two distinct issues, reviews some of the lessons learned by the available evidence on the economic impact of immigration. Instead of leading to the claim that immigration is “good for everyone,” the broader and more realistic approach teaches us that although immigration may be good for some, it is not necessarily good for all. Like trade, immigration produces winners and losers. Unlike in the case of trade, because immigration involves the movement of human beings, the implications of Max Frisch’s insight may easily reduce and perhaps even reverse the net economic gains that such flows can generate for a receiving country. In fact, it may well be that immigration leads to little increase in the economic pie, but it also leads to a substantial change in how the pie is split. As a result, it may be more useful to think of immigration not in terms of economic efficiency but as simply a redistributive social policy.

## **Economic Assimilation**

Most discussions of economic assimilation presume that it is a desirable outcome—at least from the point of view of the United States. It might seem silly to ponder whether we should think of assimilation as a positive development, but the question is not as

far-fetched as it seems. For instance, one often-heard argument in favor of immigration is that “immigrants do jobs that natives don’t want to do.” If the gains from immigration accrue from this division of labor, it is far from clear that assimilation benefits natives.

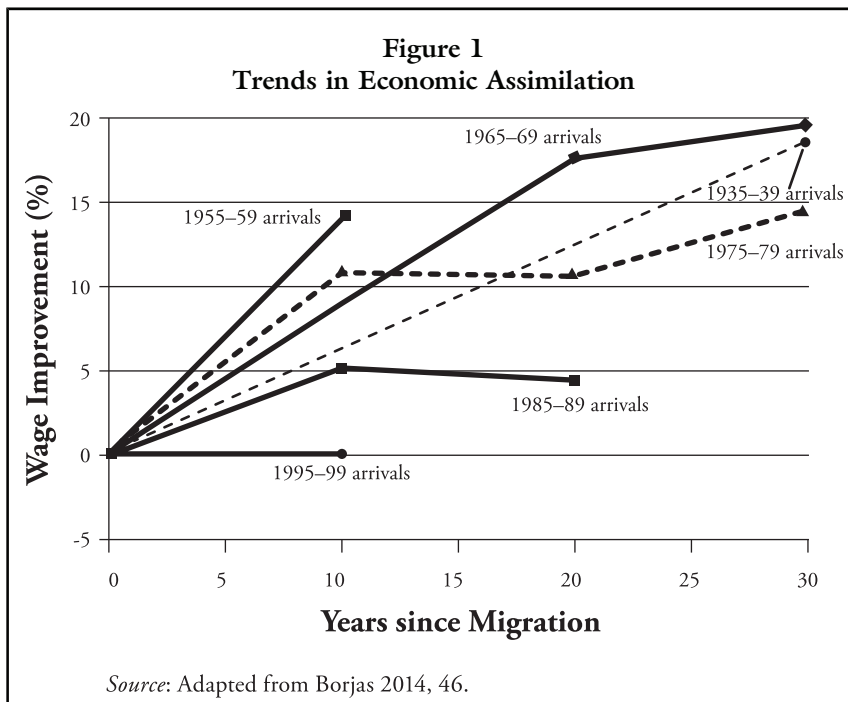
After all, if immigrants eventually become just like “us,” who will do the jobs that “we” do not want to do?

The problem with this approach is that it views assimilation from the economic perspective of costs and benefits. The concept of economic assimilation is obviously far narrower than the cultural and social integration that really lies at the core of the debate.

The immigration debate in Europe, for example, revolves around the perceived presence of large, unassimilated groups in that society. Assimilation is not simply or perhaps even mainly an economic phenomenon. However, economic assimilation is tied to—and probably goes together with—other forms of integration.

The main lesson from the existing evidence on economic assimilation is obvious: Immigrants, like everyone else, respond to incentives. If the immigrants find it profitable to assimilate, they will take actions that lead to assimilation. If the immigrants find it worthwhile to remain a group apart, that too might happen. As a result, it should not be surprising that assimilation fluctuates over time as economic, cultural, and political conditions change.

Figure 1 shows the wage growth experienced by a specific immigrant wave over time—relative to the wage growth of natives of comparable age. In effect, it illustrates how fast the earnings of immigrants are catching up to the earnings of natives. It is



certainly the case that the economic performance of the immigrants who arrived before 1980 improved dramatically. Their earnings grew by around 10 percent in the first decade and by 15 to 20 percent after thirty years.

But the assimilation outlook is far less optimistic for more recent waves. The earnings of the immigrants who arrived in the late 1980s grew by only 5 percent in their first ten years in the United States and did not improve after that. Most disturbing, the earnings of the immigrants who arrived in the late 1990s did not grow at all in their first decade here. In short, there seems to have been a dramatic *slowdown* in economic assimilation.

Part of the slowdown is related to the rise of large ethnic enclaves in the United States. The logic is obvious. Immigrants who arrive in the United States and find few compatriots with whom they can interact have a stronger incentive to acquire the skills necessary for a broader range of social and economic exchanges, such as becoming English proficient. In contrast, immigrants who enter the country and find a large and welcoming ethnic enclave have less incentive to engage in those types of costly investments because they already have a large audience that values their preexisting skills. The available data, in fact, show that assimilation rates are smaller for immigrant groups that have a large ethnic community awaiting their arrival.

It may be tempting to dismiss the modern evidence on the assimilation slowdown by going back to the historical record and asserting that the immigrants who entered the country at the turn of the twentieth century experienced remarkable assimilation and asking why the present should be any different. Although it is widely believed that the economic performance of those immigrants improved dramatically during their lifetime, a recent reexamination shows that the widespread consensus is wrong. The public release of the actual census manuscripts compiled at the time allows modern historians to track specific *persons* from census to census. This person-level tracking lets us inspect the career path of each immigrant and compare it to the path of each native-born person.

The tracking exercise turns the widespread perception of rapid improvement on its head. As economic historians Ran Abramitzky, Leah Platt Boustan, and Katharine Eriksson conclude, “The notion that European immigrants converged with natives after spending 10–15 years in the United States is . . . exaggerated, as we find that initial immigrant–native occupational gaps persisted over time” (2014, 469–70). In short, the historical experience provides surprisingly little evidence of *any* economic improvement for the Ellis Island immigrants during their lifetime.

The available evidence, therefore, suggests an intriguing message. It seems that only the immigrants who entered the United States *in between* the two mass migrations that serve as bookends to the twentieth century experienced substantial improvement during their lifetime. Notably, the interval between those two migrations happens to be the period when restrictive immigration policies, combined with the economic debacle of the Great Depression and the political upheaval of World War II, greatly limited the number of immigrants. A fascinating question remains open for future debate: Could it

be that the limited immigration during that hiatus was partly responsible for the economic flourishing experienced by the immigrants who came in those years?

## The Labor-Market Impact

“Immigrants do jobs that natives do not want to do and have little impact on natives’ job opportunities as a result.” Anyone who follows the immigration debate has surely noticed this refrain getting louder in the past decade as the political class has considered various proposals that would grant amnesty to undocumented workers and substantially increase the number of visas in many categories.

Although everyone knows that the price of gas goes down when the supply of oil goes up, many seem to believe that the laws of supply and demand do not apply in the immigration context. But there are some inconvenient facts that tend to be overlooked in the rush to the consensus that immigration is good for everyone.

As part of an enforcement initiative by the George W. Bush administration in September 2006, immigration agents raided a chicken-processing plant in the rural community of Stillmore, Georgia. The *Wall Street Journal* sent a team of reporters to investigate, and the team gathered evidence that clearly illustrates how labor markets respond to labor-supply shocks:

After a wave of raids by federal immigration agents on Labor Day weekend, a local chicken-processing company called Crider Inc. lost 75% of its mostly Hispanic 900-member workforce. The crackdown threatened to cripple the economic anchor of this fading rural town. But for local African-Americans, the dramatic appearance of federal agents presented an unexpected opportunity. Crider suddenly raised pay at the plant. An advertisement in the weekly *Forest-Blade* newspaper blared “Increased Wages” at Crider, starting at \$7 to \$9 an hour—more than a dollar above what the company had paid many immigrant workers. (Pérez and Dade 2007)

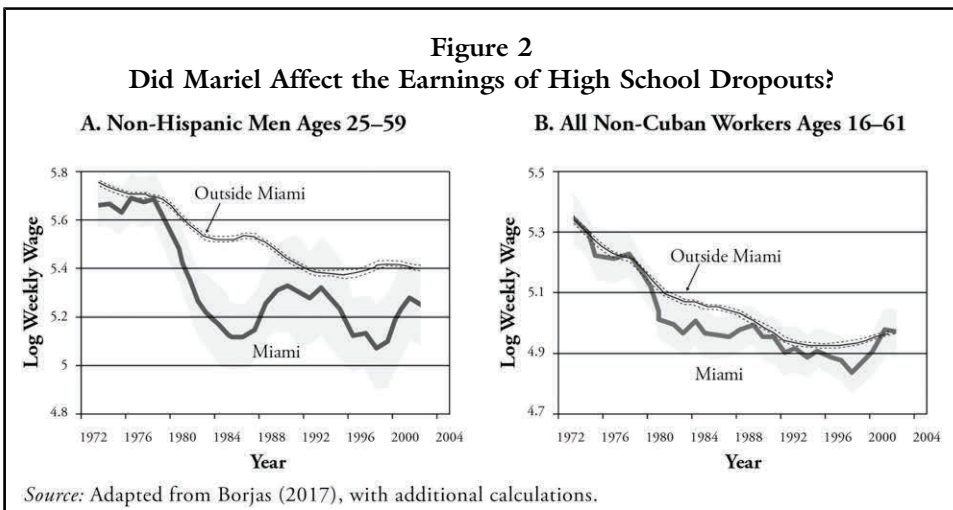
Crider’s reaction to the 75 percent cut in its labor supply demonstrate the common sense underlying the laws of supply and demand far better than economists’ mathematical models ever could. Faced with the possibility of being unable to operate the plant and suffering substantial losses, Crider did what any profit-maximizing firm would do: attract workers by offering a higher wage. In doing so, Crider learned the obvious lesson implied by economic theory. It is not that “immigrants do jobs that natives don’t want to do.” It is instead that “immigrants do jobs that natives don’t want to do *at the going wage.*”

Hundreds of published studies attempt to measure the labor-market impact of immigration, with some claiming that immigration has little impact on native wages, but others claiming that the effect is sizable. It is easy to demonstrate how one can generate both sets of results from the same underlying data in the context of the Mariel supply

shock. On April 20, 1980, Fidel Castro declared that Cubans wishing to move to the United States could leave from the port of Mariel. The first Marielitos arrived on April 23. By June 3, more than one hundred thousand Cubans had migrated, and Miami's workforce had grown by around 8 percent. We can determine the impact of this supply shock by looking at labor-market conditions in Miami just before and just after the event. David Card's (1990) original study concluded that such a comparison implied that the Marielitos had no impact on the average wage of workers in Miami.

Almost two-thirds of the refugees were high school dropouts, so the number of high school dropouts in the Miami area increased by an astounding 20 percent in a matter of weeks after the boatlift. This figure obviously suggests that a good place to start an examination of the Marielitos' labor impact would be to look at the earnings of high school dropouts. Remarkably, that trivial comparison was not reported in David Card's original study of the Mariel supply shock. While working on my latest book, *We Wanted Workers* (2016), I became interested in the Mariel context and decided to look at the data and specifically to focus on the low-skill workers most likely to be affected by the influx of immigrants (see Borjas 2017). Panel A of figure 2 shows what happened to the earnings of prime-age non-Hispanic men before and after 1980 (with the shaded area giving the margin of error). It is obvious that the earnings of low-skill workers in Miami took a dramatic nosedive after 1980, and it took a decade for their earnings to fully recover.

As I suggested earlier, there is a great deal of analytical "creativity" in immigration research, and my discovery of the trend shown in panel A quickly led to reexaminations that spun the data in a different way. The Mariel context, in fact, presents an ideal opportunity to show how it is crucial to examine the "nuts and bolts" of what researchers actually do before reaching a conclusion about a question of fundamental importance in the economics of immigration.





Panel B of figure 2 uses the same underlying data from the Current Population Surveys to recalculate the wage trends but looks at what happened to a different group of workers. This particular data manipulation indicates that the mass Mariel immigration did not have any impact on the earnings of low-skill workers. Many participants in the immigration debate will prefer what panel B says. But before jumping to conclusions based on what a graph looks like, it is crucial to stop and think about what is going on.

One distinction between the two panels of figure 2 is that panel B looks at the trend in the average wage of men and women, which seems fine except for the fact that many women entered the labor market in the 1980s. As a result, the sample composition changed in ways that need to be accounted for, particularly because the rise in female labor-force participation in Miami was far slower than the rise outside Miami.

Similarly, panel B includes non-Cuban Hispanics in the calculation of wage trends. This also seems fine until one realizes that a big chunk of those additional Hispanics were immigrants who entered the country *after* 1980. Unfortunately, the Current Population Surveys do not provide any information on country of birth at the time, so the researcher needs to approximate the population of “natives.” It turns out that 52 percent of the non-Cuban Hispanics added in panel B were immigrants who arrived after 1980. Adding these post-Mariel immigrants to the calculation again changes the sample composition and contaminates post-1980 wage trends. Just imagine, for example, how the wage trend in a “placebo” city such as Los Angeles would look compared to Miami if one included the very large number of Mexican immigrants who settled in southern California during the 1980s.

Finally, panel B includes workers outside their “prime age,” in particular those who were sixteen to eighteen years old. This inclusion is also problematic. Almost all of these teenage workers were high school students, employed in part-time jobs, and classified as “high school dropouts” because they did not yet have a high school diploma. There are millions of such students (our teenage sons and daughters among them), and their presence in the calculation of the wage trends makes the calculation almost meaningless. In the end, it seems that what one concludes about the wage impact of Mariel depends entirely on where one looks.

In my view, there is little doubt that immigrants affect natives’ labor-market opportunities. A 10 percent increase in the supply of labor in a particular skill group probably lowers the wage of that group by at least 3 percent in the short run. The temptation to play with assumptions and manipulate the data, however, is particularly strong when examining this very contentious issue, so that the reported effects often depend on the assumptions made and the statistical manipulations used. The conflicting evidence, however, suggests one moral that can be helpful when interpreting competing claims: the more one aggregates groups in the workforce, the more one “hides away” the specific group of workers hurt by immigration and the less likely one is to find that immigrants have an adverse effect on natives.

## The Immigration Surplus and the Fiscal Impact

Receiving countries typically welcome immigrants for a simple reason: they perceive that immigration generates an overall benefit for natives. If this perception were different, if it were believed that immigrants made natives worse off, I suspect that the open doors would quickly close.

To accurately measure the economic gains from immigration, one needs to list all the possible channels through which immigration transforms the economy: how immigration changes wages, prices, and profits; how immigration changes the number of jobs in each sector; how native workers and native-owned firms respond; and on and on.

This exhaustive calculation has *never* been done. Instead, the typical estimate of the gains relies on a model of a hypothetical economy that helps visualize what happens when the labor market is flooded by millions of new workers, letting us record the ripple effects of immigration on all sectors. Put bluntly, *all* estimates of the economic benefits from immigration come from an economist writing down a few equations that purportedly describe how the economy works and then plugging in some numbers (Borjas 1995).

One important lesson from this theory-based exercise is that the textbook model of the labor market—the model that describes the commonsense laws of supply and demand—indeed predicts that immigrant participation in the productive life of our country increases the aggregate wealth of the native population. This increase in the economic pie accruing to natives is known as the “immigration surplus.” In short, there are economic incentives for keeping the door open.

However, as table 1 shows, that model also predicts that the net gain for natives is modest—not in the trillions of dollars, not even in the hundreds of billions, but only around \$50 billion annually. And the theory-based exercise reveals that if one is willing to parade this modest gain in policy discussions, then one must also be willing to parade other, less-welcome implications of the same calculation: immigration is responsible for a huge redistribution of wealth, totaling around half-a-trillion dollars per year, from native workers who compete with immigrants to those natives who use or employ immigrant labor. It is telling that many discussions of the immigration surplus often

**Table 1**  
**The Short-Run Immigration Surplus, United States, 2015**

	Billions of Dollars
Immigration surplus	50.2
Loss to native workers	515.7
Gain to native firms	565.9
Total increase in GDP	2,104.0
Payments to immigrants	2,053.8

*Source:* Borjas 2016, 158.

choose to overlook the substantial distributional cost associated with generating even a \$50 billion surplus.

Note that the immigration surplus, which measures the aggregate gains accruing to natives, is conceptually different from the total increase in gross domestic product (GDP) observed in the receiving country. As table 1 shows, immigration increased GDP in the United States by more than \$2 trillion in 2015. Almost all of this increase, however, went to the immigrants themselves—immigrants, like natives, do not work for free. Almost by definition, it is likely that immigrants have gained substantially from immigration (otherwise they would return to the source countries).

I would add a huge caveat to the \$50 billion per year estimate of the immigration surplus. The calculation ignores all the externalities that immigrants create along the way. The externalities are both good (the entry of extremely high-skill immigrants surely accelerates innovation, makes us more productive, and has a beneficial impact on economic growth) and bad (the entry of some high-skill immigrants—such as those who enrolled in flight schools, learned to fly planes, and then flew them into buildings on September 11, 2001—can make us all much worse off). There does not exist a single credible study that even attempts to quantify the value of the many positive and negative externalities. So all we really have to go on is an estimated surplus of \$50 billion in the short run.

However, before concluding that immigration, like trade, is a net plus, we need to contrast the \$50 billion surplus with a number that measures the fiscal impact of immigration. After all, immigrants are not widgets. They will contribute to the funding of the welfare state through the taxes they pay, and they will increase the cost of the welfare state because they will receive some services. The fiscal impact would determine whether the taxes that immigrants pay are sufficiently large to cover the expenditures they trigger.

In September 2016, the National Academy of Sciences published a five-hundred-page report (Blau and Mackie 2016) that provides many alternative estimates of the fiscal impact of immigration, both in the short run and in the long run. The short-run impact is calculated by comparing the cost of providing public services to immigrants with the taxes that those immigrants pay in a particular year. The report unambiguously concluded that on a year-to-year basis immigrants and their dependent children create a fiscal burden.

In fact, the National Academy of Sciences used nine alternative scenarios to calculate the short-run fiscal burden (see Blau and Mackie 2016, tables 8-2 and 9-6). These scenarios report a burden ranging from \$43 billion to \$299 billion annually. In short, the social expenditures triggered by immigrants exceed the taxes they pay by at least \$43 billion a year and perhaps by as much as \$299 billion. The data are so unambiguous that it is easy to summarize what the National Academy calculations teach us. On a year-to-year basis, there is no doubt that the taxes that immigrants pay do not cover the public expenditures they trigger. And the shortfall seems to exceed \$50 billion annually.

The National Academy of Sciences also calculated the long-run fiscal impact, taking into account the taxes and expenditures of immigrants and their descendants over a seventy-five-year period. This long-run calculation allows for the possibility that

immigrants might help the country fiscally because the native population is aging and there is not enough money to fund the liabilities in Social Security and Medicare unless we drastically raise taxes or cut benefits. Immigration brings in new taxpayers who can help fund some of those liabilities in the future.

As the National Academy report notes, however, the bottom line of the long-run calculation depends *entirely* on the assumptions made. It is easy to generate either a very positive long-run fiscal impact or a very negative one by making different assumptions. Two distinct assumptions drive the conclusion. The first is how to allocate expenditures on public goods between immigrants and natives. Although it makes sense to assume that the cost of public goods, such as police protection or national defense, is unchanged if we admit one more immigrant, it makes far less sense to assume that the cost of public goods is unchanged if we admit more than 40 million immigrants. Similarly, any long-run scenario must make assumptions about the future path of taxes and government expenditures, and the available menu of assumptions about the future is tempting to anyone wishing to reach a specific conclusion about the long-run fiscal impact.

As the National Academy report shows, the long-run fiscal impact of the average immigrant is positive only if immigrants do not affect the cost of public goods and if we assume that future tax rates and benefit payments will follow the projections made by the obviously infallible Congressional Budget Office (see Blau and Mackie 2016, table 8-12). If one gets rid of either of those assumptions, the positive long-term impact of an immigrant (and of his or her descendants) contributing a net of +\$58,000 over the next seventy-five years becomes a loss as large as -\$119,000.

Assumptions matter, and different assumptions lead to wildly different answers. It is easy to generate a very large fiscal burden by charging immigrants for the cost of the public goods they receive. And it is equally easy to generate a large fiscal gain by playing around with the assumptions about future taxes and expenditures. The sensitivity of the bottom line to this type of tweaking—a tweaking that is tempting in the politically charged immigration debate—should raise many red flags. Perhaps it is time for us “experts” to admit the obvious: we have little clue about how immigrants affect the cost of providing public goods, and we have no clue about the future path of taxes and government spending. As a result, all available estimates of the long-run fiscal impact are useless!

## The Bottom Line

Do the economic gains generated by working immigrants outweigh the fiscal burden that immigrants impose?

The best available evidence (produced by the National Academy of Sciences [Blau and Mackie 2016]) concludes that immigration indeed generates a short-run fiscal burden. Across all levels of governments, the estimated burden ranges from a minimum of \$43 billion to \$299 billion annually, depending on what is assumed.

At the same time, however, there is an immigration surplus; immigrant workers increase the aggregate wealth accruing to the native population. As immigrants enter the labor market and reduce the wage of natives, they increase profits for employers. Plus, the immigrants themselves produce additional output, generating even more profits. In the end, the aggregate wealth of natives rises by about \$50 billion annually. This relatively small surplus, however, is accompanied by a \$500 billion redistribution of wealth from those who compete with immigrants (mainly workers) to those who use immigrants (mainly employers).

If we take these estimates at face value, there is an immediate and obvious implication: *the impact of immigration on the aggregate wealth of natives is, at best, a wash*. Instead, the impact of immigration is distributional. Those who compete with immigrants are effectively sending billions and billions of dollars to those who use immigrants.

In short, the efficiency gains that receive so much attention in the “economistic” perspective of immigration may be offset by the expenditures that immigrants trigger in the welfare state (although this conclusion can obviously be changed in either direction if immigrants generate positive or negative externalities or if the skill composition of immigrants were different from what we have experienced). If there are indeed no (or small) efficiency gains to be had, then espousing any immigration policy is nothing but a declaration that *this* group is preferred to *that* group. It therefore seems to me that the central question in the immigration debate is the one that, at least until recently, has been assiduously avoided by those who participate in it: *Who are you rooting for?*

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