Raveling the Immigration Narrative

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In reading George Borjas's lead essay in this issue of *The Independent Review* and his recent book, *We Wanted Workers: Unraveling the Immigration Narrative* (2016), it is impossible to escape the feeling that Borjas himself is part of the problem that he seeks to solve. He writes in his essay, "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." Borjas's own writing tends to filter things in the opposite direction, exaggerating the costs and minimizing the benefits of immigration.

This brief essay illustrates Borjas's filtering by focusing on three areas: his calculation of the immigration surplus, the fiscal impact of immigration, and global gains from open borders.

Immigration Surplus

Borjas's essay replicates his textbook labor-market model estimating the net gain to the native-born population created by immigrants and finds that the net gains are modest—around $50 billion annually. But he cautions 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

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

This modest net gain coupled with the larger "redistribution" leads him to conclude that "it may be more useful to think of immigration not in terms of economic efficiency but as simply a redistributive social policy." His framing of these numbers is severely distorted.

The economic efficiency from immigration does not increase by only $50 billion per year. Economic efficiency must count *everyone*—including immigrants. Borjas's own calculations admit more than a $2 trillion annual gain to the immigrants themselves. Yet he spends only one paragraph of his essay (and similarly only one paragraph in "The Economic Benefits" chapter of *We Wanted Workers*) briefly mentioning these huge gains. Immigration, like trade in goods, is mainly about increasing efficiency and enlarging the economic pie—not about redistribution.

Though it might be tempting to defend Borjas for downplaying the gains to immigrants in order to focus better on the net welfare of the native born, such a defense would be misguided. The lion's share (approximately 98 percent) of the large economic gains generated by immigration naturally flow to the immigrants, but those gains need not stay with the immigrants. Someone who cares only about the welfare of natives and does not count the welfare of immigrants at all would have to be thoroughly uncreative not to be able to design tax and redistribution programs that could redistribute (in the true sense of the word) some of the $2 trillion in gains away from the immigrants and to the native-born population (perhaps to those who compete with immigrants?).

De-emphasizing the large gains to immigrants doesn't allow Borjas to focus better on whether immigration makes the native born better off. It thoroughly distorts the picture and allows him to make unfounded claims that efficiency gains are small relative to so-called redistribution.

Fiscal Impact

Last year the National Academy of Sciences published a large study (Blau and Mackie 2016) showing that immigration could potentially generate either fiscal drains or fiscal gains. Yet when Borjas presents this evidence, he overemphasizes the methodologically flawed short-run calculations that show drains, and he discounts the long-run estimates that show gains.

Short-run fiscal calculations compare the cost of providing public services to immigrants and their dependent children with the taxes that the immigrants pay on an annual basis. Although this comparison can be relatively precisely calculated, it is conceptually flawed. *Any* child, immigrant or native born, is necessarily a short-run tax drain. If we are going to count the government services consumed by nonworking children, then we also need to net those costs with the present value of the taxes they will later generate.

This leads us into estimating the long-run fiscal impact of immigration. In his book, Borjas admits that the long-run calculation is "conceptually superior," but then in both his essay and book he dismisses these calculations as "useless" because the estimates are sensitive to assumptions and because we are uncertain about future tax and spending policy.[1] This leads him to claim that "[t]he wide range of conclusions allows for a lot of cherry-picking by advocates" (2016, 175–76).

Borjas himself does some cherry-picking. He admits that some of the long-run calculations show fiscal gains, but he casts doubt on these estimates by saying that they are believable only if immigrants do not increase the cost of public goods and if the "obviously infallible" Congressional Budget Office's tax and benefits projections are accurate. But this claim is disingenuous.

The Congressional Budget Office need not be infallible. Without any other data, recognizing it as fallible means that its estimate is uncertain and that it is as likely to underestimate as it is to overestimate the net tax contribution in the future. Furthermore, why should immigration increase the cost of "public goods"?

Borjas writes in his essay in this issue, "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." Really? The textbook definition of a public good is something that is both nonexcludable and nonrival in consumption—that means the cost does not go up when there are more people. This is not slipshod language. One of his actual examples is national defense—the standard textbook example of a public good![2] Would the addition of another 40 million immigrants to the United States require any more aircraft carriers or nuclear missiles?! To the contrary, the additional 40 million workers would give us 40 million more people to spread the (largely fixed) cost of national defense across, thus lowering the cost for the native born.

In *We Wanted Workers,* Borjas cautions that estimated impacts of immigration are tied to the choice of conceptual assumptions and that "we should treat those choices, particularly when there exists a temptation to further an ideological narrative, with all the suspicion they deserve" (2016, 194). Indeed. It would seem his lumping of increased national defense spending into long-run fiscal estimates deserves exactly such suspicion.

Fiscal policy is ultimately changeable. Immigration, as Borjas's own calculations show, creates a large increase in economic output that accrues mostly to the immigrants

1. "There is no doubt that the long-run calculation is conceptually superior to the short-run calculation" (Borjas 2016, 186).

2. Christopher Coyne and David Lucas (2016) find that 94 percent of the textbooks that they surveyed cite national defense as an example of a public good.

themselves. That means there is no reason that natives have to subsidize a fiscal burden created by immigrants. Rather than claiming that we know little about long-run impacts and emphasizing flawed short-run costs, more sensible policy debate would focus on how to tweak fiscal policy to turn any immigration fiscal drains into gains to the native-born population.

Global Gains from Open Borders

In 2011, Michael Clemens published the provocatively titled article "Economics and Immigration: Trillion Dollar Bills on the Sidewalk?" to survey the estimates of the efficiency gains that could be achieved if global immigration restrictions were eliminated. The numbers are staggering. The increase ranges between 50 and 150 percent of global gross domestic product (GDP).

In his essay, Borjas makes a passing reference to Paul Collier's book *Exodus: How Migration Is Changing Our World* (2013) in which 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." He makes a similar and more detailed argument in *We Wanted Workers* and another article (Borjas 2015) that challenges the idea that massive global gains are waiting to be achieved if immigration restrictions were relaxed.

His essential argument is that the existing estimates, surveyed in Clemens 2011, implicitly assume that the institutions of destination countries will remain unchanged and thus that their productivity will remain high. "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" (2016, 43).

In his book, Borjas refers to the entire literature estimating the global gains from open borders as a giant game of *Imagine* (as in John Lennon's song, where he imagines there are no countries). So he plays his own game of *Imagine* by estimating various amounts of negative productivity "spillover" from immigrants to destination countries that lowers the productivity of the native-born population. He finds that the trillion-dollar gains easily turn into trillion-dollar losses. But he assures us that "[i]t is important to emphasize that *this is only a game of Imagine*—and one should put as much faith in these numbers as one puts on the promise that trillion-dollar bills lie strewn all over the sidewalk" (2016, 44, emphasis in original). And, indeed, I do put little faith in his numbers.

Economists' estimates of global gains from open borders are modeled, not measured, because there isn't a world of open borders to measure. But the models are parameterized with real-world data from existing markets. Borjas's game *Imagine* is a game of purely fabricated spillovers. He doesn't take any evidence of spillovers from current migration and parameterize them to the model. He just speculates and claims that "no real-world data exist that might help us estimate the impact of open borders" (2016, 34). Although we do not have a world of open borders, we *do* have data that can inform the discussion so that we don't simply have to speculate. A growing literature is beginning to examine whether immigration causes changes in native productivity or in institutions related to productivity.

For instance, Francesc Ortega and Giovanni Peri (2014) examine a cross-section of countries to estimate how stocks of immigrants affected incomes and total factor productivity in destination countries. They find that a 10 percent increase in the immigration stock (approximately a standard deviation) is associated with a doubling of long-run per capita income caused mainly by an increase in total factor productivity.

Michael Clemens and Lant Pritchett (2016) use data on three key parameters—transmission (the extent to which origin country total factor productivity is embodied in the immigrants), assimilation (the rate at which migrants' productivity becomes like natives' over time), and congestions (the degree to which transmission and assimilation change at higher migration stocks)—to model dynamically efficient migration rates. Their evidence implies that a substantial reduction of current migration restrictions would improve efficiency but that the optimal quantity would still fall short of complete open borders. This, rather than speculation without any data to base it on, is the way to play the game *Imagine* when there aren't perfect real-world data.

Clemens and Pritchett's work is an important response to Borjas's case for immigration restrictions because it is able to estimate effects beyond the effect that current stocks of immigration have had on total factor productivity and to project effects at rates of immigration higher than observed in the world today. However, the response is limited by the fact that the transmission and assimilation parameters are measured by gaps and changes in immigrants' income earnings. Income gaps and changes in those gaps may tell us little about external effects of immigrants on the total factor productivity of natives if deterioration in institutional quality is the primary channel through which immigrants affect the productivity of others. The economic case for open borders is stronger than Clemens and Pritchett imply if income differentials are not matched by equal or greater differences in political and civic views. Conversely, the economic case for immigration restrictions would remain intact despite Clemens and Pritchett's evidence if there were persistent differences in political and civic beliefs that lower the quality of institutions, which do not assimilate as rapidly as wages.

The essay "Does Immigration Impact Institutions?" by J. R. Clark and his colleagues (2015) is the first paper to directly examine whether immigrants undermine a measure of institutions that has been shown to be an important cause of high living standards and economic growth. They examine how migration affects countries' economic institutions by using the *Economic Freedom of the World Annual Report*. They study how the initial stock of immigrants in 1990 and the subsequent twenty-year flow of immigrants affected the change in countries' economic freedom in a cross section of 110 countries from 1990 to 2011. They find not institutional deterioration but a positive and statistically significant relationship between initial stocks and flows of immigrants, on the one hand, and economic freedom, on the other. In their thirty-two reported regressions, they do not find a single instance of a negative and statistically significant relationship between immigration and economic freedom.[3]

Knowing how existing stocks and flows of immigrants have affected institutions is a start, but that impact has occurred in a world of managed migration. This same limitation applies to Ortega and Peri's (2014) work, which measures total factor productivity. Perhaps the levels of migration in these samples has not reached a critical mass that would negatively affect institutions. Perhaps there is a selection bias in which immigrants are admitted who would not be present in a world of open borders. Clemens and Pritchett (2016) avoid the limitations of examining only existing stocks and flows of migration but are limited by the inability to estimate external effects of immigrants that are not embodied in their wage differentials.

Another study (Powell, Clark, and Nowrasteh 2017) avoids these problems by examining a special case of a limited form of open borders that experienced mass migration—modern Israel. Israel has immigration restrictions on non-Jews, but the Law of Return allows all worldwide Jews (by heritage, not just by religion) to immigrate to Israel regardless of their current country of origin. When the Soviet Union reduced its emigration restrictions and subsequently collapsed, there was a mass flow of immigrants from the former Soviet Union to Israel. The new Russian immigrants amounted to 20 percent of Israel's population by the end of the 1990s. The study employs a synthetic control methodology and shows that rather than experiencing institutional deterioration, Israel improved its economic institutions by a substantial margin over that decade.[4]

The findings in these new studies in no way prove that in every case unrestricted migration would not harm destination country productivity. Much research in this field remains to be done, and there are surely some unique individual circumstances that may prove exceptions to general trends.[5] However, taken as a group, these studies should increase our skepticism of unsubstantiated claims that unrestricted migration would necessarily lead to institutional deterioration that would destroy the estimated "trillion-dollar bills" that the global economy could gain through much greater migration flows.

3. Similarly, a new working paper (Padilla and Cachanosky 2017) examines the impact of immigration and naturalized citizens on U.S. state-level economic freedom. These results do not indicate any strong relationship between immigration and a deterioration of economic freedom.

4. Another new working paper (Nowrasteh and Blondin 2017) employs a synthetic control methodology to examine the impact of a large unexpected surge of refugees into Jordan in 1990–91 as a natural experiment. It finds that Jordan's institutions improved rather than deteriorated once the refugees settled permanently in the country.

5. For instance, if Israel had open borders with the Middle Eastern countries rather than with worldwide descendants of Jewish people, I suspect Israel's institutions would change dramatically.

Borjas concludes his discussion of open borders in his book by claiming that "[a]dvocating policy shifts that lead to massive migration flows or that rearrange the world order—such as the adoption of open borders—without being able to fully predict or even to understand the eventual impact of that rearrangement seems premature and irresponsible" (2016, 49). Alternatively, one might paraphrase, "Advocating massive restrictions on the freedom of movement without any evidence that free movement does, in fact, decrease the productivity of destinations countries, is premature and irresponsible." A more responsible position would be to increase immigration limits until any convincing evidence of negative productivity spillovers is discovered.

Conclusion

No serious economist claims that immigration is "good for everyone." Borjas has created a strawman to knock down. Virtually any policy creates both winners and losers. The more standard claim is that immigration is Kaldor-Hicks efficient. The wealth it creates for the winners—capitalists, consumers of immigrant services, and immigrants—is greater than the income lost by those whose labor directly competes with immigrants' labor. Borjas's own estimates are consistent with this consensus. In fact, as Borjas claims in his book, "There is, in fact, little disagreement in the findings. It all depends on the spin" (2016, 108). Borjas's spin seems less reasonable than his critics'.

Borjas notes in his essay in this issue of *The Independent Review* that "[t]he 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." Conversely, the more narrowly one examines the welfare of individual groups or even a single person, the easier it is to see only a diseased tree and miss the flourishing forest. Borjas focuses on ("roots for"?) native-born workers, who might experience wage decreases because of competition from immigrant labor. After more than thirty years of debate, that literature seems mostly to have boiled down to whether people without high school diplomas face a small temporary wage reduction or not.[6] Different interpretations of the data from the Mariel boatlift that Borjas's essay discusses remain a heated topic of debate, with differing results often based on small samples (extrapolating about a forest from viewing a few trees).[7] Although whether there is a general impact on the wages of a subset of the population is a heated empirical

6. See Powell 2015 for a book-length treatment surveying the debates on the various impacts of immigration.

7. Michael Clemens and Jennifer Hunt (2017) argue that Borjas's claims about the impact of the boatlift are mistaken because his study focuses on a small group within that larger sample. In the group Borjas focuses on, they explain, the sample included many more black male workers with relatively low wages at the time of the boatlift. Thus, Borjas is simply finding lower wages because more low-wage workers entered the sample, not because the boatlift lowered wages. Borjas responded immediately to this criticism with two inflammatory blog posts disputing Clemens and Hunt's results. I suspect the academic debate on the Mariel boatlift will continue.

debate, it seems obvious that at least some workers in some places for some amount of time must lose from any policy, including any immigration policy. But how the wages of any small subgroup of the native population are affected does not seem essential to an overall evaluation of the desirability of immigration (or any other policy).

Indeed, even if one believes Borjas's numbers, it is only by ignoring the gains to the immigrants that Borjas can claim, "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" (emphasis in the original), and can provocatively end his essay by asking, "*Who are you rooting for?*" (emphasis in the original). But any policy that is Kaldor-Hicks efficient implies that enough wealth is created so that the winners *could* compensate the losers and still come out ahead. Advocating for a more liberal immigration policy does not imply rooting for anyone. It implies rooting for greater wealth creation. The question of who should receive the wealth that is created—that is, rooting for someone—is a separate issue. Borjas conflates the two. In doing so, he's not doing a very good job of rooting for anyone.

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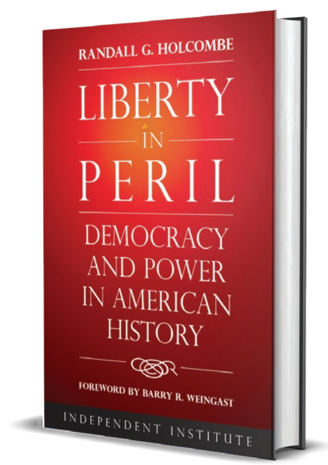

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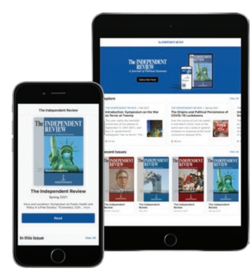

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