NPG Booknote

They Asked the Wrong People

National Research Council (NRC)
The New Americans: Economic, Demographic and Fiscal Effects of Immigration
Executive summary released May 17, 1997[1]

Reviewed by Lindsey Grant

The NRC has released the executive summary of a report on the economic, demographic and fiscal effects of immigration. It had been requested by the Congressionally-mandated U.S. Commission on Immigration Reform (CIR). *The New York Times* headline was "Report Says Immigration is Beneficial to U.S." The media picked up that interpretation, and the net impression on the public probably has been to underline the one idea: "beneficial."

That was not an accurate characterization. In fact, the report confined itself to the three specific issues cited in its title, which were the questions put to the NRC by the CIR. Moreover, its conclusions were by no means so uniformly favorable as the press suggested.

Demography

The central – and usually forgotten – issue raised by mass immigration is "how many Americans does it lead to?" The panel performed the calculations and came out with projections similar to the Census Bureau projections. Their middle projection shows annual immigration "at current levels" (which I believe they understate at 840,000) leading to a population of 387 million by 2050, two-thirds of that increase being the result of post-1995 immigration. The projection, they point out, leads toward an increasingly multiethnic society, unless ethnic lines become blurred.

The panel reported their projections but drew no conclusions from them. The key sentence in the executive summary – the smoking gun – is this: "... we assume that the U.S. economy is characterized by constant returns to scale – that is, growth in the size and scale of the economy neither reduces nor increases the productivity of labor and capital." In other words, so far as they are aware, a growth of 124 million people in our population (with more to come) has no economic significance. The panelists were clearly uncomfortable about that conclusion, but used it.

Their problem lay in the narrowness of their approach. If agricultural response curves are plateauing (as they are) and soil erosion continues (which it does), the pursuit of higher agricultural production means lower returns to labor and capital, and poorer workers. If the CPUE (catch per unit of effort) in fishery continues to decline, the marginal cost of maintaining fish production will continue to rise, and with it the cost of fish. Already, as we cut down the old growth timber and come to rely on timber plantations, the cost of lumber and wood products has risen. If, because of immigration, there is an almost unlimited supply of cheap, unskilled labor, the incentive to substitute capital for labor declines, and with it the productivity and wages of workers. Economic activity pollutes. As its scale goes up, so do the costs of trying to control that pollution, and that must come out of investment.

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They said there was no evidence one way or the other. They should have said "we don't know about the evidence." The executive summary does not mention the environment or the natural world. A different panel would have explored the limits of the natural support system in which we live: the realities of food supply and "renewable" natural resources, the effects of different levels of economic activity – GNP – on the atmosphere and climate and the biosphere, on land and water resources, on crowding and health. They could have learned a great deal about their "constant productivity" assumption.

They might even have explored the less easily quantified aspects of crowding. If the panel had been chaired by a philosopher (if indeed there are any left) and included a biologist, an agronomist, a forestry expert, a fisheries specialist, a climatologist, a couple of leading ecologists, and a labor proponent, it would have been a very different report.

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The CIR should have asked "what are the impacts of different levels of immigration on the well-being of America?"

of immigration on the well-being of America?" and allowed the panel to explore the question of sustainability. It went to the wrong people. The panel was chaired by an economist and consisted of 8 economists, 3 sociologists and a demographer. Keynesian and post-Keynesian economics, which are still the dominant element in current conventional economics, contain no methodology for dealing with the environment or with resources, or with scale or limits, or indeed with qualitative change. So the problems are ignored by the creation of convenient fictions: "infinite substitutability"; the Earth as an infinite source of resources and sink for pollution. Thus the panel of economists simply adopted the "constant productivity" assumption, not knowing how to question it.

Economic Impact

Having thereby avoided drawing any conclusions whatever from the prospect of an ongoing rise in U.S. population, the panel addressed the economic effects of immigration mostly in terms of labor, prices and economic growth. The report did admit that the least skilled Americans have suffered from the competition and that African- Americans have been harmed, but it dismissed that as a problem because less than a majority are affected. It left unsaid that these tend to be the most vulnerable sector of our population. Otherwise, the panel saw mostly benefits: a net gain from lower prices; no effect on most wages; and a gain for some. This pleasant view created a dilemma. Lower prices require the assumption of generally lower wages, which they had just denied would happen, or of higher investment levels in industry – which is precisely what immigration discourages. They escaped, if that is the word, by resorting to the familiar argument that immigrants fill "jobs American won't take." They ignored the fact that, nationwide, all the job categories (even farm workers, food preparation and service, and cleaning and building services) are still filled largely by Americans. The shortage of labor to fill some of them – and the reason that hourly U.S. real wages have been falling almost every year since 1975 – is that desperate immigrants will work for wages that Americans don't want to work for – and they are right.

That is not my idea of a prospect "...Beneficial to U.S.".

The economists' mindset appears most dramatically in their other criterion of economic success: the unstated assumption that GNP growth is the highest objective. That seems to be the national myth, so we must forgive them. They projected an annual addition of $1 to $10 billion to the nation's GNP as a result of current immigration, and applauded it, even though one wonders whether such a tiny gain, accompanied by such a range of error, is statistically significant. (By the way, they apparently did not realize it, but their own calculations indicate that immigration slightly lowers GNP per capita.[2] This panel is not the first to applaud overall GNP growth without remembering that GNP says nothing about individual consumption unless converted to per capita income.)

Keynesian economics abets the fixation on growth. Born of the trauma of the Great Depression, it is entirely focused on how to make the economy grow. Keynes himself recognized the limits of that goal, but his successors tend to be more Keynesian than Keynes.

After nearly 70 years, the time should have come to raise the more fundamental question: "can we avoid the treadmill of perpetual economic growth by learning to control the demand – driven by population growth – that makes it necessary?" This may be the most important question of our time. Scientists keep telling us of the environmental dangers of economic growth, while the conventional non-scientific wisdom is that growth is necessary to provide jobs. Lower the demand for jobs that drives the need for economic growth, and the dilemma resolves itself. And that should be the first question asked of immigration policy: does it drive the demand for growth?

Fiscal

The panel plunged into the endless debate as to whether immigrants take out more in welfare and direct services than they contribute in taxes. They concluded that immigrant households imposed a net fiscal burden of $1,178 on each native-headed California household in 1994-5. For the country as a whole, however, they estimated the burden at far less: "on the order of $166 to $226." So far, the immigrants' impact thus is mildly negative. The panel then built a model of the future. From it, they predicted, with many reservations, that "the net fiscal impact of immigration is positive under most scenarios," but that "the impact of an increase in the annual flow of immigrants would initially be negative overall for a couple of decades before turning positive." In other words: pie in the sky. Later.

There are two fatal internal flaws in the whole welfare debate: first, the statistics are not adequate to justify a solid conclusion. A projection drawn from weak data, incorporating a series of speculations about future events and their effects, resembles those shaky towers of chairs balanced one on the other that acrobats sometimes erect. It may show more about the inclinations of the participants than it predicts about the future. The Study Director for the report came to the NRC from the Urban Institute, which has been the most ardent defender of the argument that immigrants put more into taxes than they take out in benefits. From the outside, it is impossible to tell whether that background influenced this report.

Second and even more important: the comparison between taxes and welfare is meaningless, because taxes must pay for all the services an individual receives beyond welfare and direct benefits, from sewers and roads and justice to police protection to national defense. To be valid, the comparison would have to include all those costs.

Moreover, the comparison is unfair – to the immigrants. The poor generally pay less in taxes than they receive in services, and most immigrants are poor. That is why they came here. The whole welfare argument is tertiary at best. If mass immigration were otherwise good for us, we should be willing to accept its fiscal costs. But it isn't good for us, because of its effect in forcing demographic and economic growth.

"Can we avoid the treadmill of perpetual economic growth by learning to control the demand – driven by population growth – that makes it necessary?"

Asking the Right Questions

We must begin to listen to the scientists and send the economists back to monetary and fiscal policy. (All, that is, except for the few who are beginning to realize that the economy exists within the environment, not vice versa.)

CIR has paid very little attention to the broadest issues raised by high immigration levels. Of some 47 roundtables, consultations and site visits listed on its web site, only one (the Phoenix roundtable in March, 1995[3]) dealt with population and the environment, and that was a cursory three-hour potpourri of about 20 diverse individuals from population specialists to a real estate developer. Only one solicited research paper dealt with the environment, and the only major research effort commissioned by the CIR is the NRC study described in this Booknote. I hope that the CIR will take another look – before we dismiss the need for immigration reform – at the real questions posed by growth rather than authorizing more hypothetical models based on a static model and the flawed presumption of "constant returns to scale."

Notes

1. The news release can be accessed by going to the NRC website http://www.nas.edu/new/, which leads to the executive summary and tells how to get an advance copy of the draft report. Formal publication is in September. Or call (800) 624-6242.

2. The summary (p.4) says that immigration "does not change the rate of growth of income per capita," which is an odd statement in light of the fact that the immigrants' income is less than the U.S. average. Their own figures contradict their statement. Their estimated figures of a $1 to $10 billion increase in GNP work out to $3.75 to $37.45 per capita of the initial population, which translates to a new income of 1.00014 to 1.0014 of current per capita GNP ($27,000) – hardly an impressive gain – but there are now roughly 840,000 more residents as a result of one year's immigration, raising total population by 0.3% (to 1.003). Dividing the increased income (1.00014 to 1.0014) by the increased population (1.003) leads to a *decline* in per capita GNP of $77 or $54, depending on which gross figure ($1 billion or $10 billion) one chooses.

3. See NPG Footnote "A Checklist for CIR," March 1995, for my presentation to that meeting.

Other related publications available from NPG

The Biologist and the Economist: *Is Dialogue Possible?* by Nathan Keyfitz.

A Checklist for CIR by Lindsey Grant.

Immigration and Jobs: *The Process of Displacement* by Donald L. Huddle.

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