Since 2016, the public has become increasingly aware of the shortcomings of the present immigration system while seeking new directions for reform. One precondition for building a better system is to understand the impact of immigration on population, the labor market and economic well-being.

A GLOBAL VIEW OF POPULATION

Demographic trends in this country are best interpreted as part of a steady but asymmetric worldwide progression toward lower fertility and population growth. As income and education rise and societies become more urban and complex, individuals everywhere reduce family size.

According to the United Nations, during the period 1975-80 some 23% of the world’s population lived in high fertility countries, i.e., where the fertility rate (average number of births per woman over her lifetime) was greater than 5. Slightly more than half of the world’s population lived in intermediate fertility countries (rates of 2.1 to 5) and only 21% lived in countries of low fertility (i.e. less than 2.1, the estimated “replacement level” below which population eventually declines). By 2010-15, only 8% of the world lived in high fertility countries, with 46% each in intermediate and low fertility countries. By 2050 no countries will have high fertility, leaving only intermediate and low fertility countries, with some 70% of the world’s people living in countries with sub-replacement fertility.¹

While this trend is universal, population growth is decelerating at different rates in different parts of the world. Most advanced countries are now approaching stable or declining natural population growth and the middle-income countries of Asia and Latin America are expected to reach negative population growth later in the century. Yet, as the Table shows, world population is still projected to grow through 2100. Declining population in most regions will be offset by continued population growth in 1) some countries (mainly in Africa and the Middle East) with positive fertility and 2) a handful of advanced countries, including the United States, with low or sub-replacement fertility and high immigration.

| Total Population (in millions) by Country and Region, 1950, 2017, 2030, 2050 and 2100 (medium variant) |
|---------------------------------------------------------------|----------------|----------------|----------------|----------------|----------------|
| **World**                                                      | 2536           | 7550           | 8551           | 9772           | 11184          |
| **Africa**                                                     | 229            | 1256           | 1704           | 2528           | 4468           |
| **Asia**                                                       | 1404           | 4504           | 4947           | 5257           | 4780           |
| **Europe**                                                     | 549            | 742            | 739            | 716            | 653            |
| **Latin America & Caribbean**                                  | 169            | 646            | 718            | 780            | 712            |
| **North America**                                              | 173            | 361            | 395            | 435            | 499            |
| **United States**                                              | 159            | 324            | 355*           | 389            | 447            |

Source: UN 2017 Table S2
Without a change in policy, some 700,000 legal immigrants net will arrive in this country each year, thereby increasing the population (324 million in 2017) to 354 million in 2030, 389 million in 2050 and 447 million in 2100. This country would be well advised to consider carefully the consequences of allowing immigration to proceed at its present rate.

**IMMIGRATION, HUMAN CAPITAL AND ECONOMIC WELL BEING**

One essential concept in appreciating the linkages between immigration and economic welfare is *human capital*, an economists’ term that refers to the stock of knowledge, habits, social and personality attributes, including creativity, embodied in the ability to perform labor so as to produce economic value. In simpler terms, human capital refers to the quality (i.e., the level of cognitive skill) or productivity of the labor force. On a practical level, human capital is often measured by years of schooling or IQ.

While other factors, such as resource endowments, the stock of physical capital and the ratio of investment to income, may influence economic development, it is probably no exaggeration to say that the single most important determinant of any country’s economic well-being is its human capital. The potential output of any economy depends upon a) the size of the labor force and b) labor productivity. Although labor productivity can be increased by investing more capital per worker, in advanced countries most gains in labor productivity are achieved by improving the quality of the labor force.

If immigrants and natives have identical human capital, immigration increases only scale. In fact, levels of human capital are seldom identical. In the short run, immigrants may have higher levels of human capital than natives, in which case they raise the average level of human capital and hence potential per capita income. If the immigrants have less human capital, average productivity declines. The longer term impact of immigration is more complex. Immigrants from less developed countries may acquire better skills and work habits in the host country and eventually approach the level of the host country. Their children may attain levels of human capital equal or superior to those of natives. Alternatively, immigrants and their descendants may lag behind natives for generations, representing a continuous burden on the receiving country.

Just as human capital is the key to any country’s well-being, it is a major determinant of success of individuals and groups in the population. If an identifiable group of immigrants and their descendants visibly underperform or outperform natives, resentment and inter-group conflicts may well arise.

In the preceding section it was seen that fertility will be positive only in Africa and the Middle East, where human capital is the lowest in the world. The pattern of aging and declining populations in high income regions alongside demographic pressures in poor regions with low human capital will be a major force influencing global economic development and migration in this century.

**IMMIGRATION, HUMAN CAPITAL AND ECONOMIC DEVELOPMENT IN THE UNITED STATES**

In its early history when most people worked in agriculture, the abundance of land on this continent attracted migrants from Europe where land was scarce. Without any change in human capital, new workers could produce more than in their countries of origin simply by coming to America, where due to the favorable land/labor ratio, the wages of unskilled laborers tended to be the highest in the world.

The situation changed with the closing of the frontier and accelerated industrialization in the late 19th and early 20th centuries. At the beginning of the period, there were no limits on immigration. Immigrants tended to cluster in cities and were associated with poverty, health problems, crime and other anti-social behavior. Pressure for government action to mitigate the consequences of industrialism mounted while political radicalism among immigrants and the emergence of immigrant voting blocs heightened concern about disruption of the social order. Observing that industrialists used immigrants to depress wages, organized labor pressed for restrictions. Likewise, black leaders, who saw that employers often used immigrants to replace black workers, were outspoken advocates of immigration restriction through the mid-20th century.
The recurrent narrative of the United States always having welcomed destitute immigrants is ahistorical. More than a century ago, a broad coalition of Americans became convinced that unbridled immigration, as it was then occurring, was contrary to their and the country’s interest and pressed for legislation to reduce immigration and admit immigrants only on a selective basis. Even when the system was changed in 1965 (see below), the intent was not to revert to old system of unrestrained immigration, but to make some adjustments in the system of controlled immigration.

It is now conventional wisdom to voice horror or condescension at the primitive “nativist” views of the 1920s. From a revisionist perspective, however, it can be argued the debate unfolded exactly as it should in a democracy. The public recognized what was at stake, namely the identity of the nation, worsening social cleavages and the condition of American workers. Frank and vigorous debate enabled the body politic to summon up the political will to act. Quite conceivably, if the country had not imposed limits or insisted that immigrants integrate fully into American society, it would have been less able to marshal the moral and political resources to confront the Great Depression and World War II.

The decline in immigration laid the groundwork for the post World War II period (1945-70), which in retrospect was something of a “golden age” for American workers. Immigration had been low for decades while birth rates were relatively high. According to data from a comprehensive and authoritative study by the National Academy of Sciences (NAS 2017), the population rose 40% from an average of 140 million during the 1940s to 194 million in the 1960s. About 90% of this increase was due to natural increase and only 10% to immigration.4 The labor force grew yet faster as women entered the labor force in historically large numbers.

Even though the labor force was expanding rapidly, conditions were favorable to workers. With rising education and successful integration, differences in human capital between the latest wave of immigrants and earlier Americans virtually disappeared. Partly due to shared sacrifice during the two world wars and the depression, a consensus took shape that government should actively promote social mobility and social cohesion. Most Americans had the conviction that their society offered the possibilities for all to rise through their own efforts and abilities. Simultaneously, a “social safety net,” which began in the 1930s was expanded under the presumption that even the humblest members of society should have a stake in the success of society, and society should provide for its most vulnerable members.

It is worth adding that 1945-70 was a period of immense gains for black Americans. It is probably no coincidence that at the time when America had its strongest sense of nationhood acquired through shared adversity it felt obliged by conscience to come to terms with the condition of its black citizens.

The corporate sector thrived in the environment of high wages and social mobility. Moreover, prosperity was broadly shared. Labor unions were relatively powerful. The accepted norm at the time, as reflected in the Kennedy-Johnson wage/price “guideposts,” was that the average wage should rise about 3.5% per year in line with productivity growth. The guideposts assumed that tight labor markets might enable unions to raise wages to unsustainable levels.5

THE LABOR MARKET UNDER THE PRESENT SYSTEM OF IMMIGRATION

The present system of immigration, which was introduced in 1965, was not envisaged as a return to high immigration but as a limited correction of perceived unfairness in the system of national quotas. The law’s proponents assured legislators and voters that 1) overall immigration would remain steady, 2) no surge of immigration from nontraditional regions or of unskilled persons would take place and 3) the country’s ethnic composition would not be affected. All these assurances have been proven wrong.6 Quantitatively, the law has resulted in a surge in immigration far beyond anything foreseen in 1965, when less than 200,000 persons were entering the country each year. Even considering that the population has risen 50%, immigration would still only be 300,000 annually if it had risen in proportion to population rather than over 1 million as it is.

After 1970, the country’s demographic profile and labor market were transformed by 1) declining fertility 2) sharply rising immigration and 3) an erosion of the 1945-70 social consensus. Between the 1950s and 2013, the crude birth rate fell from 25 per 1,000
to 12.5 while the rate of natural population increase (births less deaths) declined from 15 per 1,000 to 4 per 1,000. Meanwhile, due to changes in laws after 1965, immigration rose from 1 per 1,000 persons to 3.5 as legal immigration rose steadily from less than 300,000 annually in 1970 to over 1 million in recent years.\(^7\)

Total immigration probably peaked between the late 1990s and 2005 as large numbers of persons entered the country illegally along with rising legal immigration. After the post-2007 Financial Crisis and the ensuing economic slowdown, net illegal immigration has been small, even as legal immigration continues to increase.

Present levels of immigration are not entirely unprecedented. Between the Civil War and 1910 the number of immigrants per 1,000 persons of population was slightly higher. Unlike the earlier period of high immigration, however, natural population growth is now at historically low levels. In 1960 about 15% of the population consisted of immigrants and their children. This figure had risen to 26% in 2015 with the share projected to rise to about 30% by 2030. Future increases in population will be predominantly, if not exclusively, driven by immigration.

Since 1970, the American economy has been transformed from an economy with rising productivity, substantial social mobility and the highest wages in the world to the present situation in which the labor market is segmented into 1) an elastic supply of low-skilled immigrants who mostly do menial jobs, 2) a cadre of skilled workers who do fairly well under the system and 3) a marginalized group of medium to low-skilled natives with stagnating wages and diminished prospects for mobility. The transformed labor market is an inherent characteristic of the post-1970 globalized business model under which companies use the increased international mobility of capital and labor to control labor costs and boost profitability. Lines of production, especially in industry, are relocated to low-wage countries while immigrants are used to dampen wages at home.

One force underlying the deterioration in the labor market is declining human capital. About 70% of immigrants are selected on the basis of family connections and have lower average levels of skills and education than natives. Consequently, they mostly hold unskilled jobs, earn less than natives and receive government social payments on a much larger scale. Arithmetically, the growing presence of low-skilled immigrants in the labor force reduces average productivity and potential per capita income. (According to the NAS Study, while most immigrants still have lower skills than natives since 1995 a significant minority has fairly high levels of skills and education.)\(^8\)

In the labor market, the replacement of natives by immigrants has been even faster than in total population. The immigrant share of total employment has climbed from 11% in 1996 to 17% two decades later.\(^9\) There is also substantial evidence that large parts of the business sector have developed a systematic bias in favor of hiring unskilled immigrants over natives.\(^10\) One additional factor speeding the replacement of natives is that poor labor market prospects and comparatively generous social benefits induce low-skilled workers to leave the labor force.\(^11\)

A number of commentators have begun noticing the problems of lackluster productivity, stagnating wages, weak labor force attachment, rising inequality and reduced social mobility. One study by a progressive research institution shows that while real wages of high-paid workers were advancing steadily during 1979-2013, the wages of median workers (the 50\(^{th}\) percentile) rose only 6% over the 34 year period while those of the bottom 10% of workers actually fell 5%.\(^12\) Researchers in prestigious institutions with strong analytic skills have produced studies which have concluded that the main causes of socially unsatisfactory employment and wage outcomes are globalization, declining union membership, declining real minimum wages, the expansion of employment in industries requiring high levels of cognitive skill and the ease of transferring production to low-cost areas abroad. Some of these studies have even found that companies have been able to drive a wedge between labor productivity and wages due to the weakened position of labor.\(^13\) It is striking that these studies, while commendable as far as they go, typically avoid considering the possible role of immigration in causing the degradation of the labor market that they see as objectionable.

It would plainly be an exaggeration to place all the blame for the degradation of the labor markets on immigration or to portray the present globalized economy in entirely negative terms. The extraordinary gains of 1945-70 were probably not sustainable in the long run inasmuch as they reflected in part a rebound
from the depression and postwar reconstruction as well as gains in productivity from the postwar liberalization of trade and investment. Even in the absence of immigration, structural changes in the global economy would probably have worked against low to medium skilled workers. Furthermore, the relocation of industry from industrial countries to emerging economies has lifted hundreds of millions of individuals in emerging markets out of poverty.

At the same time there is a dark side to present globalization. Governments are eager to maintain good relations with global corporations and seek to advance the interests of companies headquartered in their countries. Governments also realize that multinationals are capable of moving among jurisdictions in order to mitigate the impact of any prospective government measures. Multinational companies routinely “game” the tax and regulatory system. Thus, multinationals routinely minimize or entirely escape taxes, shifting the tax burden to those who lack mobility. Similarly, the corporate sector has adopted a business model based in part on access to cheap labor through immigration. These practices are not costless for those displaced by imported labor or those who pay taxes.

It would seem logical to consider the hypothesis that while structural changes in the world economy are already dimming the prospects of medium to low-skilled workers, the situation is made worse by a flood of low-skilled immigrants. This decision to ignore the possible links between immigration and deteriorating social outcomes is particularly puzzling since there is substantial literature supporting the contention that present immigration policies depress wages. In fact, the case is compelling in the case of low-skilled workers and black workers.14

Business has managed to flourish in the present low-wage economy as it did in the previous high-wage economy. However, it would have been unthinkable in 1945-70 to advocate policies explicitly designed to lower wages, which are commonplace now. Legislators eagerly listen to business or farm interests complain of “labor shortages,” “skill mismatches” or unwillingness of natives to do certain jobs. In essence, significant parts of immigration policy have been captured by business interests who have obtained programs to provide cheap labor (mostly in low-wage sectors but also in other sectors such as tech). In addition to securing government programs for access to cheap labor through legal channels, business and farm interests have lobbied, thus far successfully, to dilute enforcement of laws against hiring illegal aliens.

This paper has referred to “workers” and emphasized how the system has been unfair to those near the bottom of the socio-economic ladder. This may underestimate the actual extent of the degradation of the labor market. The study cited above mentions that wages for those in the middle range have stagnated since 1980 and prospects for mobility have worsened as well. As the business sector becomes more adept at using imported cheap labor, the impact is likely to be felt higher up the ladder.

THE FISCAL BURDEN

This transformation of the labor market is subsidized massively by American taxpayers. Reflecting their low socio-economic status in 2011, about 48% of immigrants and their children lived in poverty or near poverty compared to 31% of natives while 59% of children of immigrants lived in poverty or near poverty compared to 39% of children of natives. Some 59% of immigrant households in 2011-13 received some form of welfare payments (cash payments, food stamps, Medicaid and housing support) compared to 44% for natives.15 In 2013 each immigrant and his/her dependents received $5,000 more in government payments than he/she paid in taxes for a total net shortfall of $276 billion. There are conceptual issues in estimating the full net impact, but the net costs are clear and large.16

Unlike earlier periods in our history when the opportunity to work at high wages was the main incentive to come to America, high social benefits are now a significant additional lure. Consequently, the social safety net, which was conceived as providing a floor under a larger system where most workers are advancing, is morphing into a system of growing transfers from a steady or shrinking base of high earners to an expanding base of recipients.

The NAS study estimates that after two generations the net fiscal losses of immigration diminish significantly.17 This would suggest that 1) measures that maintain a high share of immigrants in the population have adverse fiscal consequences indefinitely, and 2) reduction in immigration would lead to improvements in the fiscal situation over time.
The high use of welfare by immigrants is a fairly convincing refutation of the argument that, with an aging native population, immigrants can rescue government transfer programs such as social security. If the immigrant population were identical to the native population in every way but age distribution, the argument might have some believability. However, the social safety net has a strong redistributive component. It strains credulity to assert that persons who are already a huge drain on the social safety net will reduce future deficits if only we let in more of them.

**LOOKING TO THE FUTURE: TWO ALTERNATIVE VISIONS**

By most economic measures, present immigration is beneficial to those who rely on investment income and those who use cheap labor while marginalizing unskilled and poorly educated natives. It is also quite costly – possibly unsustainably so – in fiscal terms. Yet, the system endures mainly because cheap labor advocates in business have formed a tacit coalition with political forces that see a demographic transformation of the country as a transcendent moral or political imperative that must be achieved even if it means inflicting serious harm on the rest of us. The choice facing the rest of us is whether to allow this to happen.

This situation can only be expected to worsen with time. Later in the 21st century, Asia and Latin America, which have recently been supplying immigrants, will be experiencing declining populations. Only Africa and the Middle East where human capital is lowest will have positive natural population growth. Even if it were possible to select the most highly capable individuals from those regions, would it make any economic or moral sense to try to attract the most capable individuals from places where human capital is scarcest?

As noted above, after surging in the 1990s illegal migration dropped sharply after 2007. With minimal political resolve it should be feasible to maintain control of the border. However, the same coalition that supports high legal immigration has also blocked enforcement of immigration laws. It is not inconceivable that if the present momentum of reform stalls, enforcement will also slacken. If global population trends unfold as forecast, hundreds of millions of persons from Africa and the Middle East are likely to try to enter the country as unlawful migrants or as refugees or asylum seekers.

The solution is simple: 1) reduce immigration to the point that it makes no net contribution to population growth and 2) select immigrants who are less burdensome. A merit-based system as in the Raise Act, which is currently before Congress, is plainly a step in the right direction. However, it is not clear why the country has any interest in accepting large numbers – even of better skilled immigrants. A reasonable objective would be zero net migration, i.e., the number of immigrants should be equal to those who leave the country. Future immigrants should consist mostly of children or spouses of citizens, with a small residual reserved for individuals of extremely high actual or potential accomplishment. Selection of immigrants should be removed from the hands of business interests. Programs to alleviate “labor shortages” or “skills mismatches” reflect little more than the adeptness of businesses at mounting Congressional lobbying campaigns and the unquenchable thirst of politicians for campaign contributions.

A fundamental shift in immigration policy would be an enormous step in restoring fairness to the labor market. The result will not be a return to the 1950s and 1960s with high natural population growth and low immigration, but one of steady or declining population with an aging labor force in which the economy relies on indigenous workers. With a tighter labor market, employers will invest in labor saving equipment and raise wages. Individuals will have strong incentives to improve their skill and to remain in the labor force. There will be a smaller labor force with higher productivity, higher wages, and more mobility. Accepting lower population means that aggregate national income will be lower than if high immigration persists, but this is irrelevant to whether Americans are better off. Some lines of production that were viable under the low-wage economy will migrate abroad – exactly what should happen in an efficient international division of labor.

In brief, it may not be possible to return to the Golden Age of 1945-70 but it is possible to avoid the dystopian future that we face if we do nothing.
ENDNOTES

1. The main source of information on global population trends in this paper is United Nations, Department of Economic and Social Affairs, Population Division, World Population Prospects The 2017 Revision Key Findings and Advance Tables. The report [UN 2017] presents high, medium and low population growth scenarios. This paper uses only the medium scenario.


3. This phenomenon was first noticed by Benjamin Franklin, in “Observations Concerning the Increase of Mankind, Peopling of Countries, &c.” (1751). Subsequent research has generally supported the accuracy of Franklin’s analysis. For a modern restatement in terms of conventional economic history see, Gary Walton and Hugh Rockoff, History of the American Economy, 10th, Tenth Edition – 2005 At the time of independence more than 20% of the population consisted of slaves of African origin as well as many indentured servants from European countries, many of whom came involuntarily. The scarcity of labor relative to land also spurred involuntary migration, but the benefits of the abundant land/scarc labor economy were appropriated by owners of slaves or indentures instead of the laborers themselves.


Borjas, who was one of the expert panelists, has also produced a critique of various chapters of the report , “User’s Guide to NAS Report” https://gborjas.files.wordpress.com/2016/09/a-user_s-guide-to-the-2016-national-academy-report2.pdf


7. NAS (2017) pp 48-49


Christopher L. Smith, “The Impact of Low-Skilled Immigration on the Youth Labor Market,” Journal of Labor
12. Lawrence Mishel, Elise Gould, and Josh Bivens, “Wage Stagnation in Nine Charts,” Economic Policy Institute, January 6, 2015. At least this study included one sentence admitting that perhaps the presence of undocumented workers was permitting employers to lower wages.


OECD, Divided We Stand: Why Inequality Keeps Rising, Paris, 2011.

http://dx.doi.org/10.1787/9789264119536-en


https://gborjas.org/2016/09/21/nas2/


18. There are also strong arguments against the proposition that immigration can compensate for the aging of the population. For example, see Camarota, Steven A. and Karen Zeigler, “The Declining Fertility of Immigrants and Natives,” October 2, 2017. https://cis.org/Report/Declining-Fertility-Immigrants-and-Natives

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