

BUSINESS INSIDER

Trump's immigration plans could cripple the US economy and hurt the workers he's pledging to protect

Pedro Nicolaci da Costa

February 24, 2017

- **Economists agree that immigration is good for the economy**
- **Immigration is a source of labor-force growth, Federal Reserve Chair Janet Yellen said recently**
- **The right-leaning Cato Institute says the deportation of "Dreamers" could cost \$60 billion**
- **Trump's other policies could hurt US workers by making businesses less competitive**

Economists disagree on a lot of issues. Immigration is not one of them.

Almost unequivocally, experts from the left and the right ends of the political spectrum see immigration as a net benefit to the economy. They cite everything from population growth to increased tax receipts to diversity of people and ideas.

That's why it is surprising to see Wall Street analysts, who are rather intensely focused at the prospect of corporate tax cuts from President Donald Trump, largely ignore the clearly detrimental impact his immediate immigration orders are already having on economic growth.

During her congressional testimony on February 15, Federal Reserve Chair Janet Yellen was not shy about offering a broad retort to immigration restrictions. Trump's plans include blanket travel bans on citizens of seven Muslim-majority nations as well as orders to increase deportations at the Mexican border with still-shifting guidelines.

"Labor-force growth has been slowing in the United States," Yellen said. "It's one of several reasons, along with slow productivity growth, for the fact that our economy has been growing at a slow pace. Immigration has been an important source of labor-force growth. So slowing the pace of immigration probably would slow the growth rate of the economy."

Her comments are striking because Yellen is usually careful not to discuss topics outside her monetary policy and regulation remit, lest her remarks be construed as political. But the Ph.D. economist and career central banker has a strong, bipartisan body of work to stand on.

The Center for American Progress, a liberal policy institute in Washington, estimates that a policy of mass deportation would "immediately reduce the nation's GDP by 1.4% and ultimately by 2.6%."

"Because capital will adjust downward to a reduction in labor — for example, farmers will scrap or sell excess equipment per remaining worker — the long-run effects are larger and amount to two-thirds of the decline experienced during the Great Recession," the CAP report says.

"Removing 7 million unauthorized workers would reduce national employment by an amount similar to that experienced during the Great Recession."

Over 10 years, US output will have fallen \$4.7 trillion short of what it might otherwise have been, CAP says. For comparison, US gross domestic product, the nation's total spending on goods and services, stood at \$18.6 trillion at the end of 2016.

Dreamers drag

The national economy will suffer losses if unauthorized immigrant workers are removed

Average annual GDP losses from removing unauthorized immigrant workers, by industry (in billions of dollars)



Center for American Progress

On the other side of the political spectrum, here's how the libertarian Cato Institute describes the dangers of Trump's immigration policies, which advocates fear will eventually encompass immigrants protected under President Barack Obama's "Dreamers" program.

The Deferred Action for Childhood Arrivals program, known better as DACA, gives certain rights, including work permits, to immigrants living in the US illegally who were brought to the US as children.

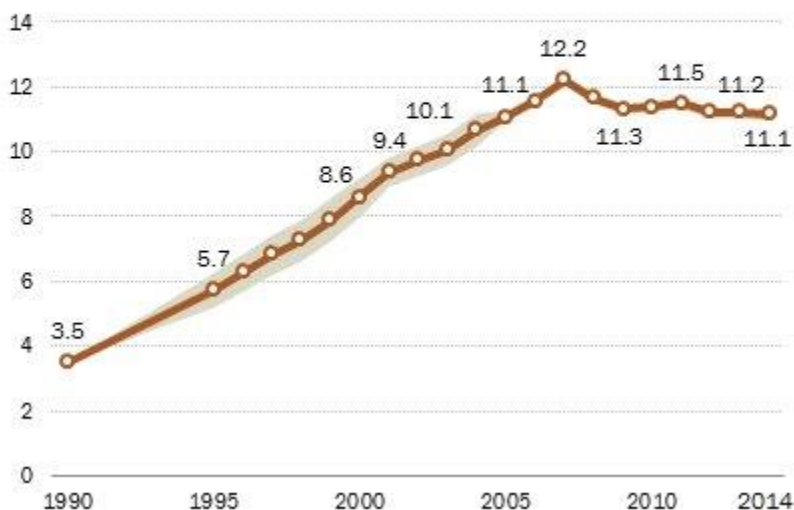
Cato estimates the budget drag from immediately deporting the approximately 750,000 people protected by DACA would be over \$60 billion for the federal government. The think tank foresees a \$280 billion reduction in economic growth over the next decade from the elimination of this program alone, even though it represents just a sliver of the estimated 11 million people living in the US illegally whose fates are now increasingly uncertain. Keep in mind that figure has been stable for several years, contradicting Trump's suggestion that this is a sudden and pressing problem.

"Donald Trump has proposed eliminating or severely modifying the Deferred Action for Childhood Arrivals program," says Neal McCluskey, the director of Cato's Center for Educational Freedom. "Many Americans believe that the presence of unauthorized immigrants is harmful to the economy and would like to see steps taken to reduce their presence. However, a repeal or rollback of DACA would harm the economy and cost the US government a significant amount of lost tax revenue."

The case for immigrants

Estimated unauthorized immigrant population in the U.S. rises, falls, then stabilizes

In millions



Pew Research Center

But the cost of restricting immigration goes beyond the expense of deporting people on a greater scale.

Immigrants are more likely than native-born Americans to start a business. Some 24.3% of US

engineering and technology startup companies and 43.9% of those based in Silicon Valley in recent years were founded by immigrants, according to a 2012 study by the Ewing Marion Kauffman Foundation.

Local economies also tend to derive a perceptible boost from bursts of immigration. Businesses near the border stand to lose the most, and some communities — like Rutland, Vermont — are even making refugee resettlement part of their economic policy. The logic is simple enough: Refugees will reverse the population drain on the town as its younger residents move away and its older residents phase out of the workforce.

Some US real-estate markets, as Trump would well know, are also dependent on foreign demand. Even if his immigration policies don't target these specific buyers, the hostility toward outsiders is turning them away.

Fear surrounding Trump's aggressive anti-immigrant positions is already depressing the US real-estate market, Redfin chief economist Nela Richardson told Bloomberg television on Thursday, citing the large sums invested in the market from foreign buyers who had become reluctant to own property in the US.

Hurting constituents

Trump's policy proposals thus far are also likely to hurt the constituency he promised to help: voters in economically depressed manufacturing and farming regions.

On manufacturing, Trump's bluster about striking major deals with specific firms like Carrier is a sideshow. The number of jobs created in each instance is paltry, but pressure to keep jobs in the US will raise costs for US firms.

That makes them less competitive, actually endangering the well-paying jobs that do remain in the US and speeding up the automation of industries that can turn to robots instead of foreign labor.

Trump's proposed offset is to levy a tax on imports, but that creates a whole other set of problems.

Many technology firms, a major source of American corporate strength, are actively fighting Trump's immigration measures for concern they will narrow the pool of available talent. In farming, Trump's popularity is already withering, because many agricultural businesses were in favor of the Trans-Pacific Partnership trade agreement with 11 other nations including Japan, Canada, and Mexico. The construction industry, heavily reliant on undocumented labor, could suffer worker shortages if Trump's measures are strictly enforced.

Whether the federal government has the resources to process all these deportations is another major uncertainty hanging over the proposed program.

It's the politics, stupid

Different Occupations

Unauthorized immigrant workers are concentrated in lower-skill jobs than U.S.-born workers



Source: Pew Research analysis based on Census data



Bloomberg News

Beyond the financial effects, it would be callous to ignore the tremendous human toll that extreme uncertainty about a more militant anti-immigration policy puts on families that are potentially affected by them. Many of those living in the US illegally have been in the country for decades, sometimes generations. They have American children and deep cultural and professional ties to the US. Wide-ranging legal challenges to Trump's policies only deepen the foreboding sense of a looming unknown.

The fear factor that begins with Mexicans and other Latin-American immigrants is already sending a chill through other communities, particularly those made up of Muslims, who have faced increased discrimination since the September 11, 2001, terrorist attacks on New York and Washington.

Trump critics are warning, rightly, that America should not forget the stain on its democratic history represented by the internment of Japanese-Americans during World War II.

Given how flagrantly ill-advised Trump's immigration stance is, even from the perspective of helping the disaffected workers he promises to represent, why is he sticking to it?

In this case, politics trumps economics, in spades. The reality-TV host turned president is merely pandering to the very base, which includes a significant racist element, that helped launch his campaign. Recall that his opening salvo for the 2016 election was a baseless, broad-brush attack on Mexico in which he mentioned the country 13 times, saying those who cross the southern border are "bringing drugs, they're bringing crime — they're rapists."

For a president who fancies himself a dealmaker, such brutish language is hardly an adequate starting point for good relations with a neighbor and longtime ally whose relationship with the US wasn't always so friendly.