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Analysis: Immigration reform could boost U.S. economic growth

By: Edward Krudy – January 29, 2013

The sluggish U.S. economy could get a lift if President Barack Obama and a bipartisan group of senators succeed in what could be the biggest overhaul of the nation's immigration system since the 1980s.

Relaxed immigration rules could encourage entrepreneurship, increase demand for housing, raise tax revenues and help reduce the budget deficit, economists said.

By helping more immigrants enter the country legally and allowing many illegal immigrants to remain, the United States could help offset a slowing birth rate and put itself in a stronger demographic position than aging Europe, Japan and China.

"Numerous industries in the United States can't find the workers they need, right now even in a bad economy, to fill their orders and expand their production as the market demands," said Alex Nowrasteh, an immigration specialist at the libertarian Cato Institute.

The emerging consensus among economists is that immigration provides a net benefit. It increases demand and productivity, helps drive innovation and lowers prices, although there is little agreement on the size of the impact on economic growth.

President Barack Obama plans to launch his second-term push for a U.S. immigration overhaul during a visit to Nevada on Tuesday and will make it a high priority to win congressional approval of a reform package this year, the White House said.

The chances of major reforms gained momentum on Monday when a bipartisan group of senators agreed on a framework that could eventually give 11 million illegal immigrants a chance to become American citizens.

Their proposals would also include means to keep and attract workers with backgrounds in science, technology, engineering and mathematics. This would be aimed both at foreign students attending American universities where they are earning advanced degrees and high-tech workers abroad.

An estimated 40 percent of scientists in the United States are immigrants and studies show immigrants are twice as likely to start businesses, said Nowrasteh.

Boosting legal migration and legalizing existing workers could add \$1.5 trillion to the U.S. economy over the next 10 years, estimates Raul Hinojosa-Ojeda, a specialist in immigration

policy at the University of California, Los Angeles. That's an annual increase of 0.8 percentage points to the economic growth rate, currently stuck at about 2 percent.

REPUBLICANS' HISPANIC PUSH

Other economists say the potential benefit to growth is much lower. Richard Freeman, an economist at Harvard, believes most of the benefits to the economy from illegal immigrants already in the United States has already been recorded and legalizing their status would produce only incremental benefits.

While opposition to reform lingers on both sides of the political spectrum and any controversial legislation can easily meet a quick end in a divided Washington, the chances of substantial change seem to be rising. Top Republicans such as Governor Bobby Jindal of Louisiana are not mincing words about the party's need to appeal to the Hispanic community and foreign-born voters who were turned off by Republican candidate Mitt Romney's tough talk in last year's presidential campaign.

A previous Obama plan, unveiled in May 2011, included the creation of a guest-worker program to meet agricultural labor needs and something similar is expected to be in his new proposal.

The senators also indicated they would support a limited program that would allow companies in certain sectors to import guest workers if Americans were not available to fill some positions.

An additional boost to growth could come from rising wages for newly legalized workers and higher productivity from the arrival of more highly skilled workers from abroad. Increased tax revenues would help federal and state authorities plug budget deficits although the benefit to government revenues will be at least partially offset by the payment of benefits to those who gain legal status.

In 2007, the Congressional Budget Office estimated that proposed immigration reform in that year would have generated \$48 billion in revenue from 2008 to 2017, while costing \$23 billion in health and welfare payments.

There is also unlikely to be much of a saving on enforcement from the senators' plan because they envisage tougher border security to prevent further illegal immigration and a crackdown on those overstaying visas.

One way to bump up revenue, according to a report co-authored by University of California, Davis economist Giovanni Peri, would be to institute a cap-and-trade visa system. Peri estimated it could generate up to \$1.2 billion annually.

Under such a system, the government would auction a certain number of visas employers could trade in a secondary market.

"A more efficient, more transparent and more flexible immigration system would help firms expand, contribute to more job creation in the United States, and slow the movement of operations abroad," according to a draft report, soon to be published as part of a study by the Hamilton Project, a think tank.

There was no immediate sign that either the Obama or the senators' plan would include such a system.

The long-term argument for immigration is a demographic one. Many developed nations are seeing their populations age, adding to the burden of pension and healthcare costs on wage-earners.

Immigration in the United States would need to double to keep the working-age population stable at its current 67 percent of total population, according to George Magnus, a senior independent economic adviser at UBS in London,

While Magnus says a change of that magnitude may prove too politically sensitive, the focus should be on attracting highly skilled and entrepreneurial immigrants in the way Canada and Australia do by operating a points system for immigrants rather than focusing mainly on family connections.

"The trick is to shift the balance of migration towards those with education (and) skills," he added.

HARD ROAD

Academics at major universities such as Harvard and the Massachusetts Institute of Technology often lament that many of their top foreign graduates end up returning to their home countries because visas are hard to get.

"We have so much talent that is sitting here in the universities," said William Kerr, a professor at Harvard Business School. "I find it very difficult to swallow that we then make it so hard for them to stay."

The last big amnesty for illegal immigrants was in 1986 when President Ronald Reagan legalized about 3 million already in the country. Numerous studies have shown that subsequently their wages rose significantly.

Research on how immigration affects overall wages is inconclusive. George Borjas at Harvard says immigration has created a small net decrease in overall wages for those born in the United States, concentrated among the low-skilled, while Giovanni Peri at UC Davis found that immigration boosts native wages over the long run.

Hinojosa-Ojeda stresses that any reform needs to make it easier for guest workers to enter the country to avoid a new build-up of illegal workers.

"If we don't create a mechanism that can basically bring in 300,000 to 400,000 new workers a year into a variety of labor markets and needs, we could be setting ourselves up for that again," said Hinojosa-Ojeda.

Nowrasteh at Cato also believes an expanded guest worker program would stem illegal immigration and allow industries to overcome labor shortages.

He found that harsher regulations in recent years in Arizona were adversely affecting agricultural production, increasing financial burdens on business and even negatively impacting the state's struggling real estate market.

Some large companies have fallen foul of tougher enforcement regulations.

Restaurant chain Chipotle Mexican Grill Inc fired roughly 500 staff in 2010 and 2011 after undocumented workers were found on its payrolls. Putting the chill on other employers, it is now subject of an ongoing federal criminal investigation into its hiring.

"The current system doesn't seem to work for anyone," Chipotle spokesman Chris Arnold said.