

## The Economic Case for a Moratorium

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**By Edwin S. Rubenstein**

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We are a nation of immigrants. As Presidents frequently remind us, except for American Indians we or our ancestors left other countries for a better life in the United States.

For much of our history immigration strengthened the nation's economy. Compared to Europe, the U.S. was well-endowed with land and capital, but relatively short of labor. By populating the frontier, increasing the size of the market economy, and adding valuable skills and expertise to the native workforce, successive waves of foreign workers enhanced the living standards of earlier immigrants as well as their U.S.-born children.

In economic terms, immigration was a win-win proposition — benefiting immigrants as well as natives. Our immigration policy reflected this: *From the founding of the Republic in 1789 until the 1920s there were no quantitative limits on immigration.*

Eventually the frontier vanished and American cities became overcrowded. Our physical capacity to absorb new arrivals eroded. While America's industrial economy boomed, millions of the new jobs went to immigrants who poured into the country between 1890 and 1920. These men and women enriched our culture, but they also moved ahead of and displaced native workers — minority and non-minority alike. Immigration became a zero sum game: the economic gains accruing to immigrants were more than offset by losses suffered by natives.

In 1921 Congress responded with the first quantitative restrictions on immigration, limiting arrivals to 3 percent of the foreign-born population. In 1924 immigration was cut again, to 160,000 a year. By the late 1920s, it was down to 50,000 a year. During World War II it was halted, with only displaced persons allowed into the country. The post-war era saw a return to the 156,700 per year cap on legal immigration.

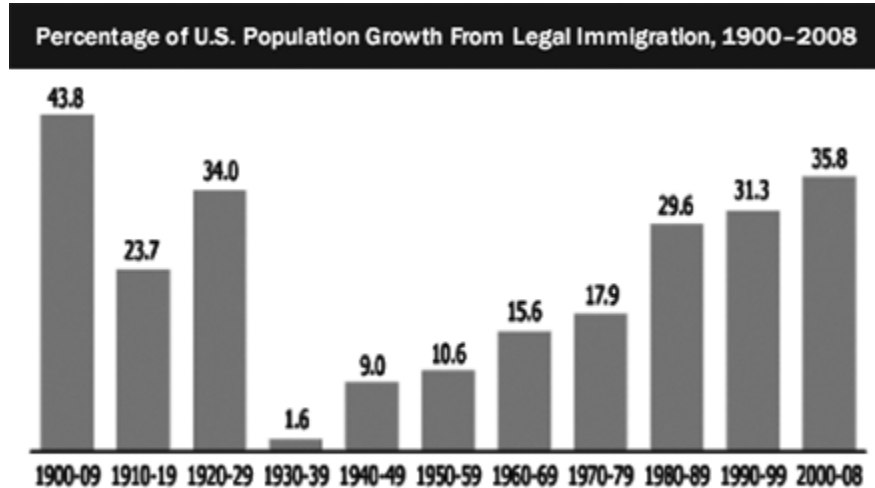
The restrictionist policies remained in effect until 1965. That year's Immigration and Nationality Act switched priority for entry from people with particular national origins to those with relatives living in the United States. The result was a pronounced shift in origins of individuals admitted to the U.S. While about 60 percent of the immigrant visas issued between 1924 and 1965 went to nationals of Germany and the United Kingdom, subsequent entrants were mostly Latin American and Asian immigrants.

The 1965 law supposedly "capped" new immigration from Western Hemisphere countries. But there was a catch: close relatives of immigrants already here were admitted without limit. This loophole — little noticed at the time — triggered another Great Wave of immigration. The negative consequences of the post-1965 policy regime have yet to be fully felt.

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## Legal Immigration Drives U.S. Population Growth

Rising immigration levels, combined with a declining rate of natural increase (births minus deaths), means that immigration accounts for a larger share of U.S. population growth now than in any decade since 1900-09:



Source: U.S. Census Bureau.  
<http://www.prb.org/Educators/TeachersGuides/HumanPopulation/Migration.aspx>

The chart above shows that in the 1960s first-generation legal immigrants (annual new arrivals) accounted for 15.6 percent of the increase in the U.S. population. By the 1990s that figure more than doubled, to 31.3 percent, and in the first eight years of the twenty-first century it rose still further, to 35.8 percent. (NPG) Bottom line: legal immigration accounts for a larger share of population growth today than it did prior to the 1920s restrictions.

Of course, these percentages understate the true impact of immigration because they ignore the U.S.-born children of immigrant mothers. This omission is significant because immigrant fertility rates are significantly above those of the native-born. In 2000 native-born Americans averaged 13 births per 1,000 population, while immigrants averaged more than twice that — 28 births per thousand.

## The Crisis of 2007-2009

This gargantuan rate of increase since 1965 has led to an immigration disaster that adds an immigration dimension to every public issue — government deficits, health care, the housing bubble, crime, school overcrowding. The salutary impact of an immigration moratorium on each is a worthy topic for future research.

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But first things first. Nowhere is the immigration dimension more evident than in employment — and never has the issue been more urgent, given that unemployment has reached rates not seen for a generation. Nearly eight million jobs have vanished since December 2007. Economists estimate that 100,000 new jobs must be created *each month* just to absorb new labor force entrants.

Two divergent immigration trends are impacting the U.S. labor force in the recession. Census Bureau data suggest that the illegal alien population has declined by 1.7 million, or about 14 percent, since peaking in the summer of 2007. Over that period the annual number of returnees has doubled compared to earlier in the decade, while illegal entrants are down by one-third. Fewer job opportunities and increased enforcement are the major reasons for the trend. <http://www.cis.org/IllegalImmigration-ShiftingTide>

By contrast, legal immigration continues at historically high numbers, virtually unaffected by U.S. economic conditions. This includes legal immigrants from Mexico, the top country of origin for illegal immigrants. This is not surprising. Most legal immigrants are admitted based on one overriding variable: whether the entrant has a family member already residing in the United States. Family-based visas can, in many cases, take years to secure. Employer-sponsored visas account for a relatively small share of the overall legal influx.

(Note that demand for employer-sponsored visas should decrease in a down economy — but it hasn't. This anomaly confirms what many of us have long suspected: U.S. employers prefer low-wage foreign workers to equally skilled — and readily available — natives.)

In 2008 1.1 million new immigrants and 400,000 “temporary workers” were allowed to enter and take up residence. (DHS)

Most will receive work permits and look for jobs. This translates to as many as 125,000 new immigrant job seekers per *month*, 29,000 per *week*, and 4,100 per *day*.

Implication: one year's worth of legal immigration could easily take most of the 650,000 jobs the Obama Administration claims were saved or created by its stimulus package.

### **A Moratorium and Native Wages**

“After World War I, laws were passed severely limiting immigration. Only a trickle of immigrants have been admitted since then....By keeping supply down, immigration policy tends to keep wages high.”

— Paul Samuelson, *Economics*[1964]

Perhaps the most compelling reason for a moratorium is to protect native workers from job and wage losses. Economics 101 teaches that an increase in the supply of labor will reduce the price (wage) of labor. Because immigrants are generally younger than natives, they account for an even larger share of labor force growth than population growth.

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Immigrants accounted for nearly 50 percent of U.S. labor force growth between 1996 and 2000, and as much as 60 percent of the increase between 2000 and 2004.

If net immigration continues at current levels, [new immigrants and their children will account for all of the growth in the U.S. labor force between 2010 and 2030](#). The resulting wage loss to native (and earlier immigrant) workers will occur regardless of whether the new arrivals are legal or illegal, temporary or permanent.

Harvard economist George Borjas has quantified the problem. Among his [research findings](#):

- Immigrants arriving between 1980 and 2000 reduced the average annual earnings of native-born men by about \$1,700 or roughly 4 percent.
- Among high school dropouts, who roughly correspond to the poorest tenth of the workforce, the impact was even larger — a 7.4 percent wage reduction.
- Wage losses of native-born Blacks and Hispanics are significantly larger than those for whites because a much larger share of those minorities directly compete with immigrants.
- Native-born college graduates are not immune; their income is 3.6 percent lower due to the two decades worth of competing immigrants.

[Borjas' rule of thumb](#): native wages fall by 3 to 4 percent for each 10 percent increase in the foreign-born share of the workforce.

These are national averages. States with high and rapidly growing concentrations of immigrant workers will experience above-average wage reductions. Conversely, their native-born workers stand to gain the most from a moratorium.

The disparity is vast. In 2005, for example, the foreign-born share of state populations [labor forces] ranged from 27.2 percent in California to 1.2 percent in Maine. Similarly, immigrant population growth in 2000-2005 ranged from 7.4 percent per year in Delaware to an average annual decline of 0.2 percent in Hawaii. Future research should estimate the wage gains for native workers in the various states arising from a moratorium.

*But, but: Doesn't higher population growth=higher GDP growth?*

A typical pro-immigration screed runs like this:

“Relatively faster growth in the US population will translate into relatively faster economic growth... This is not optimism, but simple arithmetic. Japan and many European countries face long-term stagnation or even decline in their real GDPs and hence the aggregate economic and

fiscal resources available to pursue future-oriented agendas, from investing in the young to investing in national defense.”

—Richard Jackson, Director of the Global Aging initiative, Center for Strategic and International Studies

Get it? More immigration means more workers, which means higher GDP — which means we need more immigration.

Reality check: GDP does indeed rise when new immigrants enter the labor force. But the average standard of living falls.

Living standards are best measured by per capita, not total, GDP. Per capita income falls when new immigrants are less educated, productive, motivated, — and earn less — than natives or earlier immigrant groups. This is the case in the U.S., as seen by average annual incomes:

- Native-born workers: \$45,400
- All immigrants: \$37,000
- Mexican immigrants: \$22,300

Economists focus on Mexicans not because many are illegal aliens, but because they are entering in larger numbers than any other immigrant group and, relative to the rest of the labor force, they have far fewer skills. More than 60 percent of Mexican immigrants are dropouts; fewer than 10 percent of today's native workers are. As a result, their **average incomes are vastly lower** than those of native-born men and of other immigrants.

The major beneficiaries of immigration are the immigrants themselves — who earn far more here than in their home country — followed by their U.S. employers, whose profits rise. Among native-born Americans, only the skilled and affluent benefit from the presence of unskilled immigrants, as when professionals hire migrants to do household work or pay slightly less in restaurants where immigrants hold down wages. Most Americans do not own their own business. Most of us are not affluent. Most of us are close to the average worker. As such, we lose ground to competing low-wage immigrants.

The truth is that nations with stagnant or falling populations often produce higher living standards. Take Japan, for example, where population is shrinking but the labor force is rising as older people rejoin the workforce and more women take jobs. If per capita GDP depended on a rising population, Africa, Latin America, Indonesia, and the Philippines would be rich.

Even in China, where population growth has clearly played a role in growing the economy, the accumulation of human capital — essentially education and workforce experience — is deemed by **Goldman Sachs** to have contributed more to GDP growth than the growth of the labor force since the capitalist reforms began in 1979.

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## **A Moratorium and Fiscal Deficits**

The economic crisis has forced the federal government to spend and borrow at levels that would have been unimaginable even a few years ago. Most economists believe the response was appropriate. Without it the Great Recession would have quickly morphed into another Great Depression. They are equally insistent, however, that a quick pay down will be necessary when the private economy starts growing again. Failure to cut federal debt from its lofty levels — currently projected to reach 90 percent of GDP by the end of fiscal 2010 — will condemn us to decades of slow or no private sector growth.

Unfortunately, years of mass immigration have reduced the government's ability to liquidate these enormous debt obligations. That's because immigrants are poorer, pay less tax, and are more likely to receive public benefits than natives. Federal, state, and local finances are all adversely impacted by immigration — and this negative will increase as the foreign-born share of the population increases. Yet there is surprisingly little objective research on this. The most extensive study, commissioned by the Jordan Commission on Immigration Reform, found that the average immigrant household receives \$13,316 per year in federal spending while paying \$10,664 in federal taxes — that is, they generate an annual deficit of roughly \$2,700 per household. That was nearly fifteen years ago.

My own [research](#), published in the *Social Contract* in 2008, estimated that the foreign-born population cost the government \$346 billion in FY2007. That translates to about \$9,100 per immigrant per year. We found that every cabinet level department, and most federal programs, were impacted by the 37 million legal and illegal immigrants living in the U.S.

State and local governments may suffer even more. Immigrants pay proportionately less state and local taxes than federal taxes, but consume services disproportionately funded by state and local taxes — including social services and public education.

A second way that immigration inflates state and local spending is via its impact of public infrastructure (roads, bridges, airports) and the environment. Maintaining clean water, air, and land requires hefty spending increases, especially when most new immigrants come from cultures that do not value a clean and healthy environment as much as Americans do.

Hospitals, prisons, public school buildings, and mass transit facilities are among the other types of infrastructure that are in short supply and deteriorating due to the economic impact of immigration and population growth. My contention that infrastructure and immigration are two closely related crises was fleshed out in another [issue of the \*Social Contract\*](#).

Future research will estimate the potential savings of an immigration moratorium on federal, state, and local government spending — including infrastructure outlays.

## **Moratorium: Best Stimulus**

Too many people. Not enough jobs. This, in a nutshell, is the dilemma facing the U.S. economy. At this writing policymakers have focused exclusively on the “Not enough jobs” part of the problem — with dismal results.

Barak Obama’s \$787 billion stimulus package has flopped. By the Administration’s own reckoning, only a fraction of its job creation goals have been realized. If, by some miracle, the stated goal of 3.5 million new jobs comes to pass, the cost per job would be an outrageous \$225,000. By comparison, the average full-time civilian [worker earned \\$44,101 in 2009](#).

Meanwhile, Washington ignores the flip side of the unemployment problem — too many job seekers. Yet this may offer the best hope of resolving the dilemma. The brutal arithmetic runs like this: roughly 100,000 jobs per month must be created just to accommodate growth in the U.S. labor force. In recent years new immigrants have accounted for about 60 percent of U.S. labor force growth. Within a few decades immigrants and their U.S.-born children will account for all of that growth.

A moratorium for all non-essential and non-refugee immigration cases makes sense. Such a time-out could be set to last for one or two years, when the economy is predicted to be significantly improved. Or it could be timed to run as long as the U.S. unemployment rate remains above 5 or 6 percent. Yes, that could be decades — but the moratorium would itself hasten the time at which it is no longer needed.

The first rule of intelligent policy-making is this: when you are in a hole, stop digging. America is in an unemployment hole right now. We have millions fewer jobs than we need to keep our population gainfully employed. It makes no sense to bring in hundreds of thousands of job seekers to chase jobs that don’t exist—and to drive wages down for the jobs that do. Yet that is exactly what our current immigration policy is doing.

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## **Supplement: Measuring a moratorium’s impact**

What is an immigration moratorium? In its most extreme form it means a total cessation of both legal and illegal immigration into the U.S. No one is seriously proposing this, and, indeed, implementing such an extreme measure would probably be impossible. But for research purposes a zero immigration scenario is useful. It provides an upper bound to the impact that a restrictionist policy can have on future population growth.

The Pew Research Center examined the implications of zero immigration in a paper published in 2008. [Jeffrey S. Passel and D’Vera Cohn, “[U.S. Population Projections: 2005-2050](#),” Pew Research Center, February 2008.]

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Under current policy immigration will average 1.7 million per year over the 2005-2050 period, and U.S. population will increase by 142 million, reaching 438 million in 2050 according to Pew. Immigrants arriving after 2005 and their U.S.-born children and grandchildren will account for 82 percent of total population growth during this period.

Thus a moratorium, by which we mean a cessation of all legal and illegal immigration, would reduce 2050 population by 117 million (82 percent of 142 million) below the level that would have obtained under current policy. Population will still grow because of the natural increase of births over deaths. Without the infusion of new immigrants, however, the mid-century population will be about 27 percent less than it would have been.

The two scenarios are illustrated in the graphic:



Less stringent reductions would obviously have less impact on future population growth. Thus a 50 percent cut in annual immigration over the 2005-2050 period will reduce mid-century population by 88 million, or about 13 percent below the level it would have been under current policy.

Source: [Pew Hispanic Center](#)

## **Supplement: Infrastructure and immigration - FDR v. Barack Obama**

The reliance on public infrastructure to create jobs is one of many parallels between today's recession and the Great Depression. Unlike the 1930s, however, issues of race are clouding the policy discussion. The Congressional Black Caucus has criticized President Obama's infrastructure plan for not providing more direct assistance to African-American contractors or workers. Not to be outdone, Hispanic voters reported in a recent survey that less than 30 percent saw any benefit from federal recovery efforts in their neighborhoods, including the creation or retention of any jobs.

Is the Obama stimulus package shortchanging groups who are suffering the most? Unemployment rates seem to confirm this: While the unemployment rate is 9.3 percent for whites, the jobless rate for blacks is 15.6 percent and 12.7 percent for Hispanics. Nationally, it's 10 percent.

Discrimination may be the best explanation — but not the sort of discrimination that minority hiring quotas are supposed to remedy. The most racist policy in this country for the past forty years has been immigration policy. Construction contractors knowingly employ millions of illegal immigrants while the government looks the other way. Illegals work for less than comparable native minorities, and, perhaps equally important, they cannot sue their employers for discrimination.

The pro-immigration crowd goes even further, claiming that shovel-ready projects generate jobs that Americans simply do not want to do. Obama's infrastructure plans will never leave the drawing board unless more Third-World, multi-ethnic labor is imported for the heavy lifting.

That's what they say.

FDR begs to disagree.

The Works Progress Administration (WPA) was the largest New Deal agency. Long before "infrastructure" was the buzzword, it put millions to work carrying out public works projects. The result: 78,000 new bridges, 125,000 new buildings, 800 airports, 650,000 miles of roadway.

Almost every community in the United States still has a WPA library, park, bridge, or school.

About eight million new jobs were created by the agency between 1935 and 1943. (In today's labor force this is the equivalent of approximately 24 million positions.) This tally does not include jobs spawned by non-WPA projects constructed around this time — a list that includes the Empire State Building (1931), Hoover Dam (1936), and the Golden Gate Bridge (1937).

We're talking jobs for real Americans: In the last prosperous year (1929) 279,678 immigrants were admitted, but in 1933 only 23,068 came to the U.S. Between 1929 and 1935 about 164,000 people were deported for being here illegally; roughly 20 percent of them were from Mexico.

All in all, more people emigrated from the United States than immigrated to it in the 1930s.

The foreign-born population continued shrinking in the 1940s and 1950s. This didn't stop Eisenhower from signing off on the bill to create the biggest infrastructure project in U.S. history: the Federal Aid Highway Act of 1956.

Obama has done a great job bailing out bankers, infrastructure contractors, and others in the top end of the income distribution. At the bottom, native whites and minorities are still out of work — and sinking fast.

All this and amnesty too?

Franklin Delano Roosevelt would be furious.

## About the author

Edwin S. Rubenstein, president of ESR Research, economic consultants, has 25 years of experience as a business researcher, financial analyst, and economics journalist. Mr. Rubenstein joined Hudson Institute, a public policy think tank headquartered in Indianapolis, as Director of Research in November 1997. While at Hudson he wrote proposals and conducted research on a wide array of topics.

As a journalist, Mr. Rubenstein was a contributing editor at *Forbes Magazine* and economics editor at *National Review*, where his "Right Data" column was featured for more than a decade. His TV appearances include *Firing Line*, *Bill Moyers*, *McNeil-Lehrer*, *CNBC*, and *Debates-Debates*. In *The Right Data* (National Review Press, 1994), Rubenstein debunks many widely held beliefs surrounding the distribution of income, government spending, and the nature of economic growth.

From 1980 to 1986 he was senior economist at W.R. Grace & Co., where he directed studies of government waste and inefficiency for the Grace Commission. From 1978 to 1980 he was a municipal bond analyst for Moody's Investors Service. Mr. Rubenstein has a B.A. in economics from Johns Hopkins and an M.A. in public finance from Columbia University.

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