Twisting Economics Against Immigrants

by P. Gardner Goldsmith

On January 7 President Bush announced what appeared to be a sweeping plan to grant de-facto amnesty to millions of illegal aliens working in the United States. In fact, it was little more than a long-term worker-visa program that barely increased the ability of employers to hire whom they wished, and came nowhere near recognizing the right of individuals to move where their abilities take them.

Nonetheless, this has not stopped commentators ranging from conservative radio hosts Laura Ingraham and Michael Savage to writers such as Pat Buchanan and Mark Krikorian from heralding the end of America as we know it. Though it might be easy to flippantly dismiss such warnings, many of their arguments are substantive and important. Due to the paternalism of contemporary government, the proposal to accept the "illegals" is fraught with problems.

But apart from these practical, day-to-day considerations, and separate from the debate over whether immigrants are a net gain or loss to the coffers of the federal government, there is a larger, timeless issue that lies at the heart of the anti-immigrationist assertions. It is the sweeping claim that immigrants suppress American wages and take American jobs. The argument is used to pander to blue-collar workers and high-tech employees alike, and it is bandied about far too frequently by those who should know better.

Perhaps the most egregious example in this regard is Krikorian, who has a deft and stylish way of selectively presenting arguments made by free-trade advocates and using their words to bolster his own anti-free-trade position.

In his January 7 *National Review Online* article about the President's plan, Krikorian (a visiting fellow at the Nixon Center and director of the Center for Immigration Studies) paints a rosy picture of an America that restricts immigration. According to Krikorian, if the U.S. government were to enforce more stringently the nation's immigration policies, life for American workers would improve: "[E]mployers would respond to this new, tighter, labor market in two ways. One, they would offer higher wages, increased benefits, and improved working conditions, so as to recruit and retain people from the remaining pool of workers. At the same time, the same employers would look for ways to eliminate some of the jobs they now are having trouble filling."[1]

This hopeful passage brings some nagging questions to mind. Foremost among them is where employers will get the expendable capital to offer higher wages, increased benefits, and improved working conditions. Are they operating on such high profit margins that they can absorb the new costs that Krikorian would dictate?

He seems unconcerned with this minor problem, and continues to tread along his utopian path. "The result would be a new equilibrium," Krikorian says, "with blue-collar workers making somewhat better money, but each one of those workers being more productive."

It is interesting that he should feel so free to tell employers and workers how their businesses will operate and that they will achieve a "new equilibrium" that he prefers over the one the employers and workers could establish without his help. Besides the fact that his assumption regarding wages is completely erroneous and reflects little understanding of profit, marginal costs, and the productive use of capital, he assumes employers can simply increase these wages without any consideration of the most important player in the free-market economy, *the consumer*.

Krikorian conveniently neglects to consider how consumers would respond to the forced higher costs of products. Perhaps this is because he believes the heady notion that costs just wouldn’t go up. As he says: "[S]ince all unskilled labor—from Americans and foreigners, in all industries—accounts for such a small part of our economy, perhaps four percent of GDP, we can tighten the labor market without any fear of sparking meaningful inflation."

Such assurances usually don’t sit well with people who understand why we work to decrease costs of production in the first place. This is a basic concept that nearly every consumer going to the market understands.

Less, Not More

The purpose of a productive economy is to make things easier, not harder, to buy; to let us use less, not more, of our toil to get a product. To embrace Krikorian’s naïve notion would be to accept the idea that the farmer should take a wheel off his plow, because, though the machine will move more slowly and he will have to work harder to get his produce, it will employ an American to carry the wheel-less side of the plow, or better yet, force the farmer to hire a team of experts to develop a new, floating plow that may cost him too much to stay in business, but will employ high-skilled natives.

This must be an attractive line of thinking to Krikorian, for in his attempts to supersede the preferences of consumers and businessmen as reflected in the market, he cites as inspiration one of the most legendary free-market thinkers, the late Julian Simon, and his work on scarcity.

In his breakthrough 1981 publication, *The Ultimate Resource*, Simon revealed that most of the leftist fears regarding depletion of natural resources were unfounded. Simon understood that the relative scarcity of resources leads to greater human innovation, which leads to greater productivity, greater market abundance of old and new resources, and improved living conditions.

As Krikorian notes, Simon spelled it out clearly when he said: "It is important to recognize that discoveries of improved methods and of substitute products are not just luck. They happen in response to ‘scarcity’—an increase in cost. Even after a discovery is made, there is a good chance that it will not be put into operation until there is need for it due to rising cost. This point is important: Scarcity and technological advance are not two unrelated competitors in a race; rather, each influences the other."[2]

This is absolutely correct. Unrestrained human ingenuity lets us thrive in a world of limited resources. But Krikorian seeks to use this discovery to justify depletion of the U.S. labor force! Citing raisin growers in the United States and Australia as comparative examples, he explains that in Australia, a nation with a small workforce, raisin growers were forced to develop new techniques to harvest their product. This innovation led to greater productivity—more raisins being harvested per worker. In the United States, he argues, a surplus of low-wage, immigrant workers suppressed this development, and thus U.S. raisin growers did not adopt the new, productive methods that arose in Australia.

But implicit in his argument is the fact that U.S. employers *did not have to* develop those new forms of harvesting, because their relative costs were lower and labor was not scarce. According to Krikorian, the scarcity of labor in Australia led to technological progress, the kind of thing Simon would have applauded, and the surplus of labor here led to technological stagnation, which hurts an economy in the long run.

By embracing the idea that scarcity leads to innovation, Krikorian assumes that a man like Simon would have welcomed greater scarcity. Under Krikorian's paradigm, we ought to eliminate as many resources as we can, be they labor resources or natural resourses, because their scarcity will lead to technological innovation and greater productivity.

In other words, burn down the forests with eager dispatch. We will come up with new alternatives to lumber.

Need-Based Decisions

Krikorian makes the dual mistakes of assuming better market knowledge than the U.S. raisin growers themselves and of confusing all technological innovation—at all times—with a greater productive use of capital. While the needs of Australian raisin growers led them to come up with new ways of harvesting their crops, and these may have been more productive for *them*, U.S. growers made their decisions based on their own needs. To assume for U.S. growers the responsibility of how best to spend their money and invest in resources is not only arrogant; it also stifles the cost analysis that leads to innovation in the first place.

This may all seem academic at first glance. But it is important. As it happens, Krikorian's argument has been widely disseminated, not only in the online and print versions of *National Review*, but also in the broadcast media, where Rush Limbaugh read his polemic on the air to millions of listeners. It is pervasive, and it is ominous.

Krikorian's messy reinterpretation of Simon's logic is really a tool to support his belief that immigration is not only unnecessary, but that it should be curtailed. At the core of his thinking, and of that of people such as the usually insightful Laura Ingraham, is the honest belief that foreign laborers suppress native wages and harm the economy as a whole.

Perhaps not coincidentally, it was Julian Simon himself who conducted probably the most exhaustive survey of all economic data regarding these claims, and his work refutes Krikorian on every level. In his landmark 1995 paper titled "Immigration: The Demographic and Economic Facts," published by the Cato Institute and the National Immigration Forum, Simon looked at the available studies, and concluded: "The studies uniformly show that immigrants do not increase the rate of native unemployment in the aggregate. The reader need not go further if the conclusion is all that is desired."[3]

However, if one wanted to go further, one could discover that immigration also does not, in the aggregate, suppress wages for native workers. Immigration has a slight dampening effect on wages only in certain sectors of the economy, typically those sectors that depend on immigrant labor. These decreases in wages are often very slight, and the wages rise over time as each sector sees economic improvement. As one study reported: "[T]he evidence we have assembled for the 1980s confirms the conclusions from earlier studies of 1970 and 1980 census data. In particular, we find little indication of an adverse wage effect of immigration, either cross-sectionally or within cities over time. Even for workers at the 10th percentile of the wage distribution, there is no evidence of a significant decline in wages in response to immigrant inflows."[4]

Data like these often go overlooked by commentators. With such information on hand, readers would be able to dispel error and seek out the truth, and in the political realm, this practice is not just an academic exercise. When codified, assumptions can cause great damage. Many people assume that an influx of immigrants will harm the bargaining power of the American worker. But they do not see that a decrease in immigrant workers would mean a decrease in the bargaining power of the consumer.

Some claim that the "jobs no one else will do" would pay higher wages if we just got those pesky foreigners out of the labor pool. They never consider that the consumer would be forced to pay more, and the businessman might not be able to attract the consumer to his product if he had to sell it at a higher price.

Most of all, however, they do not see the dynamic effect that a few extra pennies in each consumer’s pocket can have on the economy as a whole. The reason immigrants are not dangerous to the U.S. economy is that they allow consumers to buy the best product they can for the lowest price. This in turn allows the consumer to have more

expendable capital perhaps for *new* American product or business venture, which will employ more people, and in turn help strengthen the economy. Despite what the doomsayers claim, immigration helps us all better our lives. It’s what economic progress is all about, and it is why people come to this country in the first place.

1. Mark Krikorian, "Jobs Americans Won’t Do," National Review Online, January 7, 2004, www.nationalreview.com/comment/krikorian200401070923.asp.
2. Quoted in ibid.
3. Julian Simon, "Immigration: The Demographic and Economic Facts," December 11, 1995, www.cato.org/pubs/policy_report/pr-immig.html.

4. Quoted in ibid. from Kristin F. Butcher and David Card, "Immigration and Wages: Evidence from the 1980s," *American Economic Review*, May 1991, p. 296.

This article was originally published by the Foundation for Economic Education (FEE) in The Freeman, Vol. 54 No. 9 (September 2004)

About The Author

P. Gardner Goldsmith is an independent journalist and screenwriter in New Hampshire. The Foundation for Economic Education (FEE), one of the oldest free-market organizations in the United States, was founded in 1946 by Leonard E. Read to study and advance the freedom philosophy. FEE's mission is to offer the most consistent case for the "first principles" of freedom: the sanctity of private property, individual liberty, the rule of law, the free market, and the moral superiority of individual choice and responsibility over coercion