

Sharp Cuts in Immigration Threaten U.S. Economy and Innovation

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The long-run health of the United States economy is in serious danger from a self-inflicted wound: the Trump administration's big cuts in immigration.

5 The latest data indicate that immigration to the United States fell 70 percent last year to only 200,000 people — the lowest level in more than a decade. Major causes of the decline, experts say, are the administration's restrictions as well as the unwelcoming tone set by the president himself.

On top of this, the White House has announced that the United States will accept only 18,000 refugees in the coming year, down from the current limit of 30,000 and a small fraction of the 110,000 President Barack Obama said should be allowed into the United States in 2016.

10 The Trump administration may find the falling immigration numbers a cause for celebration. But, more than any drop in the stock market or fall in manufacturing sentiment or consumer confidence, they present the scariest economic news we have seen in some time. The impact of low immigration on the American economy will be profoundly negative, both now and in the future.

15 The first reason is the simplest. The growth rate of the economy comes from two parts: income growth per capita and population growth.

Birthrates generally plunge when countries get rich. Scholars debate the causes, but the inescapable fact of fewer babies results in an aging population in advanced economies. And the overall population is already shrinking, or will soon most likely be, in Japan, China, South Korea
20 and much of Europe.

But that hasn't been happening in the United States, at least not until now. Yes, the country is aging, and the baby boomers are retiring. But its population is expected to continue to grow by 90 million, from 327 million today, over the next 40 years or so, assuming immigration continues at its historical rates.

25 That assumption is critical, however. The only way the United States has avoided the demographic pressure facing other rich countries is through immigration. The census estimate of population growth includes around 1.4 million immigrants a year.

The birthrates for women born in the United States have been dropping, just as they have in other rich countries. The fertility "replacement rate" needed to sustain the existing population level is
30 around 2.1 children per woman. But last year, the birthrate in the United States dropped to 1.73, approaching the dwindling rates in the European Union, China and Japan.

Without sustained immigration, economic growth will be notably slower. Moody Analytics analyzed the data and estimated that if annual United States immigration stayed at only 200,000 rather than a more normal one million, gross domestic product would be \$1 trillion lower a
35 decade from now.

In addition, lower immigration portends big problems because the basic American retirement system — Social Security and Medicare — relies on workers to pay for retirees, and the entire expansion of the work force over the next 15 years will come from immigration. Lower immigration rates will mean serious funding shortfalls for older Americans.

40 The final reason the low immigration number is so frightening is not really about population growth at all. It's that the evidence increasingly says having immigrants here makes workers born in the United States more successful.

That's partly because immigrants start companies at twice the rate of native Americans. Almost half the companies in the Fortune 500 were started by immigrants or their children, and
45 without them, jobs are likely to be scarcer in the future.

Also, as the American economy becomes more dominated by knowledge work, immigration restrictions are likely to have an increasingly severe impact. In recent research, the New York University economists Petra Moser and Shmuel San examined the economic effects of the national quota system of the 1920s. That was the last time the United States engaged in mass immigration restrictions based on ethnicity.

These laws of the 1920s were designed to block the entry of immigrants from Southern and Eastern Europe and from Asia in order to preserve the ethnic “character” of the United States. With these laws, immigration fell below 300,000 in 1925, from more than 800,000 in 1921, according to the Migration Policy Institute. Quotas remained until the 1960s, and the United States did not return to 1921 immigrant levels until 1989.

Professor Moser and Professor San have found that those quotas seriously curtailed immigration of scientists and inventors of specific ethnicities (Jews from Eastern Europe, for example). The scholars gathered biographical information on 82,000 scientists and inventors in the United States from 1921 to 1956, including details on their areas of specialty, the number of patents they received and their places of birth. They wanted to know how excluding immigrants affected American-born scientists and inventors.

In reality, they found, the quotas didn’t protect domestic scientists and inventors. It hurt them, and it decimated their work. Patents for American scientists who worked in fields with many East European scientists fell almost 60 percent compared with those in other fields. And, over time, fewer American-born people became scientists and inventors at all. The net effect was a substantial reduction in invention in the United States.

The essence of knowledge work is building on others’ ideas, and having fewer creative people from different backgrounds in the United States undermined the entire enterprise.

I asked Professor Moser what she considered the most important lesson from the 1920s immigration experience. “Don’t keep people out based on ethnicity,” she said. “They did it to preserve the ethnic character of the country, but the different perspectives and approaches of immigrants were actually quite important.”

Because knowledge builds on itself and scientists train the next generation, she said, “the damage that restricted immigration had on American science lasted a very long time.”

That keeping foreign ideas out makes domestic workers worse off is a lesson we should not forget. Making outsiders feel unwelcome, blocking asylum seekers or putting their children in cages may succeed in reducing the flow of immigration to the United States. But the American economy will suffer.