



THE IMMIGRATION OPPORTUNITY

Facts, Myths, and Reforms

May 10th, 2021

AMERICAN ACTION

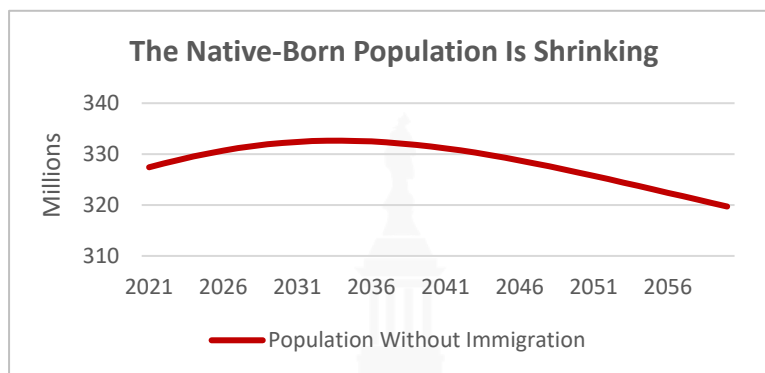
FORUM

THE UNITED STATES' GROWTH PROBLEM

- Economic growth in the United States is slowing: It will take twice as long for the standard of living to double in the future as it did over the last 70 years.
- The native-born U.S. population is shrinking, reducing the size of the labor force and, all else equal, shrinking the size of the economy.
- Any pro-growth economic agenda must include legal immigration reform to ensure a growing labor force and to encourage greater innovation and productivity.

THE UNITED STATES' GROWTH CHALLENGE

The United States has a growth problem. Since World War II, the economy has grown quickly enough that the standard of living would double in 30 to 35 years. But the forecasted long-term real economic growth rate, accounting for population growth, is about half that, and as a result it will take 65 years to double income per person. Achieving the American Dream is becoming far more difficult.



A large part of this slowdown in economic growth is due to slowing population growth. The birth rate of the native U.S. population is below the replacement rate, meaning the native-born U.S. population is shrinking. A shrinking population means fewer workers, and fewer workers means a shrinking economy, all else equal. Faster growth is essential to the well-being of American families and prosperity that is broadly shared.

LEGAL IMMIGRATION: PART OF THE SOLUTION

The growth rate of the economy consists of two important pieces: (1) the growth rate of labor supply, and (2) the growth rate of output per worker, or productivity. Legal immigration can have powerful impacts on both.

Immigration raises the overall pace of population growth, ensuring the labor force continues to expand. Immigrants also tend to have higher rates of labor-force participation than native-born workers.

Immigration boosts productivity, as well. Immigrants have traditionally displayed an entrepreneurial bent, offering the potential for productivity-enhancing innovations. Greater productivity and more workers together mean faster economic growth. Legal immigration reform is therefore a critical part of any pro-growth economic strategy.

This brief is adapted from "[Building a Pro-Growth Legal Immigration System](#)," AAF's immigration-reform proposal.

DEBUNKING IMMIGRATION MYTHS

THE UNITED STATES DOESN'T NEED MORE IMMIGRATION.

The United States needs immigration if it wants to maintain a strong economy. Native birth rates are [below the replacement level](#), which means—without immigration—a smaller population, fewer workers, and thus a shrinking economy.

LIMITING LEGAL IMMIGRATION WILL HELP THE ECONOMY.

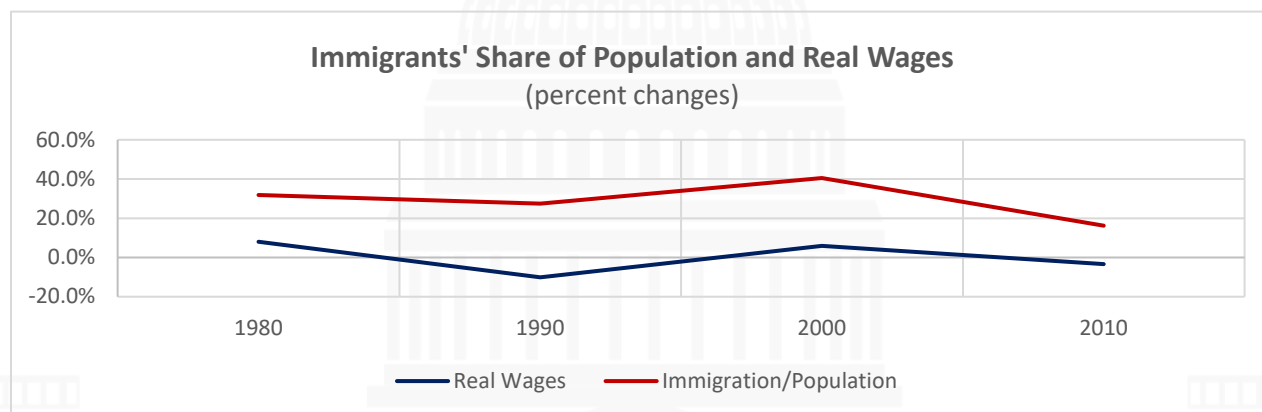
The reverse is true. Immigrants [help](#) the economy on a variety of fronts, from boosting consumption to raising productivity to creating jobs and paying taxes, and often at rates higher than native workers. There are many examples. If the Deferred Action for Childhood Arrivals (DACA)-eligible population were to be removed from the U.S. workforce, it would [cost](#) the federal government between \$18 and \$52 billion, and the economy would forgo \$176 billion in gross domestic product.

IMMIGRATION THREATENS TO BANKRUPT SOCIAL SECURITY AND OTHER PARTS OF THE SOCIAL SAFETY NET.

Immigration bolsters the safety net. It is true that the Social Security Trust Fund will be depleted in the next decade because, with the Baby Boomers retiring, there are more people taking benefits out of the system than paying taxes in. More immigration, however, would have as its immediate effect more payroll and more payroll taxes—ultimately delaying Social Security's financial difficulties (exactly the same scenario as would happen if the United States had another baby boom). Immigrants also are [net contributors](#) to federal and state budgets, with second-generation immigrants contributing more than any other group.

IMMIGRANTS ARE STEALING JOBS AND LOWERING WAGES.

Higher immigration levels create more jobs and higher wages for the native-born population. For every 100 high-skilled immigrants, 183 jobs are [created](#) for the native born, and for every 100 new low-skilled immigrants, 464 jobs are created for the native born. Immigrants have [different skills](#) than U.S.-born workers, leading them to specialize in different types of jobs and thus not displace native workers. This specialization boosts productivity and drives native-born workers to perform their own jobs more efficiently, ultimately increasing their wages.



This brief is adapted from "[Building a Pro-Growth Legal Immigration System](#)," AAF's immigration-reform proposal.

ECONOMIC BENEFITS OF IMMIGRATION

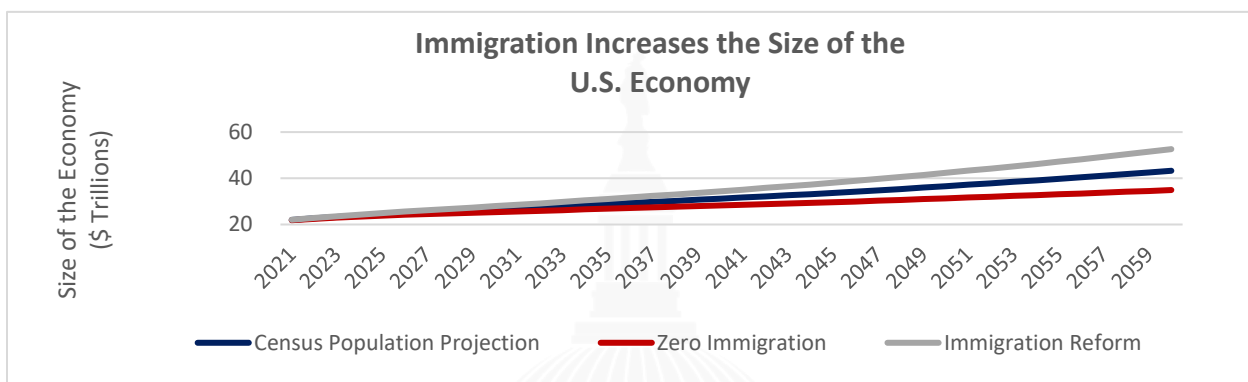
- Through a variety of mechanisms, immigrants boost the economy, with the result that immigrants contributed 15 percent to the economy between 1990 and 2016.
- Immigrants not only increase aggregate demand and the size of the labor force but also boost productivity in a way that raises wages for everyone.
- Immigrants are net contributors to both federal and state budgets.

THE ECONOMIC BENEFIT OF IMMIGRATION

Between 1990 and 2016, the size of the economy would have been approximately 15 percentage points lower without immigration, according to one [study](#). [Research consistently finds](#) that immigrants contribute to the economy in a variety of ways.

CONSUMPTION AND WORK

One obvious way that immigrants boost the economy is through consumption. Recipients of Deferred Action for Childhood Arrivals (DACA)—only one class of immigrant—provide \$40 billion in economic activity annually. But immigrants also contribute to the economy by working. Not only do immigrants add to the overall labor force, but foreign-born workers have higher [labor-market participation rates](#) (65.2 percent) than native-born workers (62.8 percent), compounding the benefits of immigration.



ENTREPRENEURSHIP AND SPECIALIZATION

Immigrants spur higher productivity in a couple of ways. One is through entrepreneurship. Immigrants are disproportionately more likely to start their own business, and in 2020, [44](#) percent of the Fortune 500 companies were founded by immigrants or their children, with these companies employing 62,000 workers on average.

Immigrants also spur productivity gains through specialization. A [study](#) from the National Bureau of Economic Research found that immigrants have different skill sets and preferences than U.S.-born workers, leading them to specialize in different types of jobs. This boost to productivity translates to wage gains for native-born workers as well as immigrants.

TAXES AND SPENDING

Immigrants are also a net benefit to federal and state budgets. First-generation immigrants might initially cost more, but that trend is reversed for subsequent generations. One [study](#) found that second-generation immigrants are “among the strongest economic and fiscal contributors in the U.S. population, contributing more in taxes than either their parents or the rest of the native-born population.” DACA recipients provide nearly [\\$3 billion](#) to the Treasury.

This brief is adapted from “[Building a Pro-Growth Legal Immigration System](#),” AAF’s immigration-reform proposal.

PRO-GROWTH IMMIGRATION REFORM

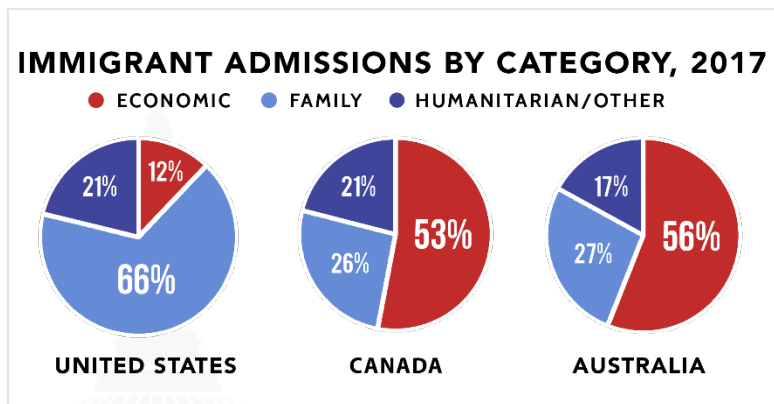
- The United States grants two-thirds of its visas based on family connections, while other countries such as Australia and Canada focus their immigration systems on economics.
- The key to pro-growth legal immigration reform is to fundamentally revamp the core visa-granting criteria to focus on skills and labor productivity.
- A point-based system that seeks to fill skills gaps, boost productivity, and combat demographically driven population decline could be a broadly attractive reform option.

THE REASON FOR REFORM

The United States' immigration policy has never been part of an economic growth strategy, and the current system puts the United States at a competitive disadvantage. The U.S. immigration system prioritizes family ties, but other countries prioritize their economic self-interest.

Nevertheless, most reform proposals do not focus on the economic impact of immigration. The Biden Administration's recent proposal, for example, focuses on legalizing illegal immigrants while making little change to the legal immigration system.

The key to [pro-growth reform](#) is to fundamentally revamp the core visa-granting criteria to focus on skills and labor productivity. Focusing legal immigration policy in this way could advance entrepreneurship, augment productivity gains, fill skills gaps, and combat demographically driven labor force declines. Such a reform could be a powerful force for economic growth—and may provide an attractive reform option for a broad range of policymakers and voters.



PRO-GROWTH LEGAL IMMIGRATION REFORM

The American Action Forum has outlined [one such reform](#). The proposal has two parts.

- **Points System:** Highly skilled, highly educated, and entrepreneurial workers would gain access to permanent visas through a new point system. Applicants would be awarded points for education and experience. More points would be awarded for English proficiency, family relationships, and experience in high-demand fields.
- **Temporary Visa System:** Individuals that do not meet the points threshold, for instance because of lower education levels, would be eligible for admission through a temporary worker program. These individuals could then transfer to the permanent visa program after six years of demonstrated labor market success.

This proposal would be a marked departure from current U.S. immigration policy. By prioritizing the needs of the United States, it would leverage the advantages of immigration to boost the economic prospects of everyone.

This brief is adapted from "[Building a Pro-Growth Legal Immigration System](#)," AAF's immigration-reform proposal.