

ECONOMICS IN THE REAL WORLD

ZERO-SUM FALLACY

ACTIVITY 1



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Immigration

When he accepted his party's nomination in July, Donald Trump used one of my economic papers to back up his plan to crack down on immigrants and build a physical wall: "Decades of record immigration have produced lower wages and higher unemployment for our citizens, especially for African-American and Latino workers," he told the cheering crowd. But he was telling only half the story.

Hillary Clinton, for her part, seemed to be telling only the other half. At her convention a week later, Clinton claimed that immigrants, both legal and illegal, improve the economy for everyone. She told the crowd: "I believe that when we have millions of hardworking immigrants contributing to our economy, it would be self-defeating and inhumane to try to kick them out. Comprehensive immigration reform will grow our economy."

"Anyone who tells you that immigration doesn't have any negative effects doesn't understand how it really works. When the supply of workers goes up, the price that firms have to pay to hire workers goes down. Wage trends over the past half-century suggest that a 10 percent increase in the number of workers with a particular set of skills probably lowers the wage of that group by at least 3 percent. Even after the economy has fully adjusted, those skill groups that received the most immigrants will still offer lower pay relative to those that received fewer immigrants."

"But that's only one side of the story. Somebody's lower wage is always somebody else's higher profit. In this case, immigration redistributes wealth from those who compete with immigrants to those who use immigrants—from the employee to the employer. And the additional profits are so large that the economic pie accruing to all natives actually grows. I estimate the current "immigration surplus" —the net increase in the total wealth of the native population —to be about \$50 billion annually. But behind that calculation is a much larger shift from one group of Americans to another: The total wealth redistribution from the native losers to the native winners is enormous, roughly a half-trillion dollars a year. Immigrants, too, gain substantially; their total earnings far exceed what their income would have been had they not migrated."