Non-Technical Summary: Firm Dynamics and Immigration: The Case of High-Skilled Immigration

It's easy to understand the logic behind the economic arguments against immigration. If we have more high-skilled workers, this increases the supply of skilled labor and, in turn, reduces the wages of high-skilled workers. This static, supply and demand logic buttresses attacks on the H-1B visa program—letting foreign-born workers into the US reduces the wage of high-skilled natives. Thus, immigration is "bad."

What is missing from this argument is how labor demand changes—and this is where my research focuses.[1] The basic idea is that firms in the economy dynamically respond to the increased availability of new workers. With more workers in the economy, new firms are created, supply new products and services, and demand labor to do so. Thus, firm creation increases labor demand and suppresses the negative, supply-driven effects on high-skilled wages. Moreover, increases labor demand benefit low-skilled workers and, thus, lead to higher wages for them.

Here is how to think about this. An expansion of the H-1B visa program allows firms like Amazon, Google, Facebook, Microsoft, etc. to expand. This creates opportunities for new firms to provide goods and services to an expanded labor force. Some of this may be within high-tech and this will mitigate any negative effects on high-skilled workers' wages. A lot of this will work through other parts of the economy: more construction, retail, restaurants, etc. Hence, low-skilled labor benefits from the increased business opportunities that come with the expansion of high-skill-intensive firms.

Essentially, the firm-creation mechanism eliminates the bad outcomes typically associated with immigration and leads to great outcomes for all: higher wages (especially for the low-skilled), higher GDP per worker, consumption per worker, and welfare. For example, I find that the proposed Immigration Innovation Act of 2015 or "I-Squared," which sought to triple the number of H-1B visas per year, leads to a one percent increase in low-skilled wages and a one and a half percent increase in GDP over 15 years. While seemingly small gains, relative to such a small change in policy they are substantial.

This logic implies that restricting immigration leads to bad economic outcomes. While tightening immigration restricts the supply of labor, it also reduces labor demand as firm creation diminishes. In particular, I find that high-skilled workers do not benefit from restricting high-skilled immigration. Moreover, low-skilled workers suffer dramatically as they are most directly exposed to a change in firm creation. Returning to the example above, constraining firms like Amazon, Google, Facebook, Microsoft, eliminates opportunities for new firms and erodes labor demand and wages for both high- and low-skilled workers.

There is one nuance to my argument: who pays for firm creation? Firm creation is a form of investment that must be paid for. Who finances these investments? We do through our consumption-savings decisions. These observations imply that to finance firm creation, immigration reduces consumption in the short run. Furthermore, how this loss in aggregate consumption is distributed across individual households ultimately depends on the distribution of firms-profits across households. In other words, Mark Zuckerberg and Bill Gates—who are large shareholders of the firms that they operate (or operated) and who advocate policies such as the I-Squared Act—bear the short-run burden of an increase in immigration, not their workers.

[1] Firm Dynamics and Immigration: The Case of High-Skilled Immigration